



# **NAVAL POSTGRADUATE SCHOOL**

**MONTEREY, CALIFORNIA**

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**MBA PROFESSIONAL REPORT**

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## **A COMPARISON OF TRANSPARENCY IN THE DEFENSE PROCUREMENT PROCESSES OF TURKEY AND THAILAND**

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**By: Mehmet Simsek and  
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March 2014**

**Advisors:** Keith F. Snider  
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<b>REPORT DOCUMENTATION PAGE</b>			<i>Form Approved OMB No. 0704-0188</i>	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington, DC 20503.				
<b>1. AGENCY USE ONLY (Leave blank)</b>		<b>2. REPORT DATE</b> March 2014	<b>3. REPORT TYPE AND DATES COVERED</b> MBA Professional Report	
<b>4. TITLE AND SUBTITLE</b> A COMPARISON OF TRANSPARENCY IN THE DEFENSE PROCUREMENT PROCESSES OF TURKEY AND THAILAND			<b>5. FUNDING NUMBERS</b>	
<b>6. AUTHOR(S)</b> Simsek Mehmet and Pakphum Phairotchananan				
<b>7. PERFORMING ORGANIZATION NAME (S) AND ADDRESS(ES)</b> Naval Postgraduate School Monterey, CA 93943-5000			<b>8. PERFORMING ORGANIZATION REPORT NUMBER</b>	
<b>9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES)</b> N/A			<b>10. SPONSORING/MONITORING AGENCY REPORT NUMBER</b>	
<b>11. SUPPLEMENTARY NOTES</b> The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government. IRB Protocol Number: N/A.				
<b>12a. DISTRIBUTION / AVAILABILITY STATEMENT</b> Approved for public release; distribution is unlimited			<b>12b. DISTRIBUTION CODE</b>	
<b>13. ABSTRACT (maximum 200 words)</b>  <p>This study will compare the defense procurement processes of Turkey and Thailand in terms of transparency and explore the risk of corruption throughout the defense procurement cycle. To analyze the defense procurement process of both countries, the researchers will investigate and evaluate the vulnerabilities of the processes by considering the main characteristics of each procurement process and the differences between both countries. The report will include some examples from defense procurement of the United States for improving and solving the problem in transparency. Finally, recommendations will be given for Turkish and Thai military to improve their transparency in the defense procurement process.</p>				
<b>14. SUBJECT TERMS</b> Defense Procurement, Corruption, Transparency, Anti-Corruption Regulations, Defense Procurement Organizations			<b>15. NUMBER OF PAGES</b> 109	
			<b>16. PRICE CODE</b>	
<b>17. SECURITY CLASSIFICATION OF REPORT</b> Unclassified	<b>18. SECURITY CLASSIFICATION OF THIS PAGE</b> Unclassified	<b>19. SECURITY CLASSIFICATION OF ABSTRACT</b> Unclassified	<b>20. LIMITATION OF ABSTRACT</b> UU	

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PROCESSES OF TURKEY AND THAILAND**

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Submitted in partial fulfillment of the requirements for the degree of

**MASTER OF BUSINESS ADMINISTRATION**

from the

**NAVAL POSTGRADUATE SCHOOL  
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## **ABSTRACT**

This study will compare the defense procurement processes of Turkey and Thailand in terms of transparency and explore the risk of corruption throughout the defense procurement cycle. To analyze the defense procurement process of both countries, the researchers will investigate and evaluate the vulnerabilities of the processes by considering the main characteristics of each procurement process and the differences between both countries. The report will include some examples from defense procurement of the United States for improving and solving the problem in transparency. Finally, recommendations will be given for Turkish and Thai military to improve their transparency in the defense procurement process.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

ASEN	Association of South East Asian Nations
ATIP	Advanced Technology Industrial Park
COA	Court of Audit
CRS	Congressional Research Service
CPI	Corruption Perceptions Index
DII	Defense Industry Initiative
DIS	Defense Industry Strategy
DOD	Department of Defense
DOJ	Department of Justice
DTI	Defense Technology Institute
EBRD	European Bank for Reconstructions and Development
EU	European Union
FAR	Federal Acquisition Regulation
FCPA	Foreign Corrupt Practices Act
FOIA	Freedom of Information Act
MGK	National Security Council
MOD	Ministry of Defense
MOF	Ministry of Finance
OSCE	Organization for Security and Co-operation in Europe
PPBS	Planning, Programming and Budgeting System
PPD	Planning and Programming Directive
PR	proposal request
RTA	Royal Thai Army
RTAF	Royal Thai Air Force
RTN	Royal Thai Navy
SIPRI	Stockholm International Peace Research Institute
SOO	statement of objectives
SOW	statements of work
SSIK	Defense Industry Executive Committee
SSDF	Defense Industry Support Fund

SSM	Undersecretariat for Defense Industries
SSYKK	Defense Industry Higher Coordination Board
TAF	Turkish Armed Forces
TESEV	Turkish Economic and Social Studies Foundation
TGNA	Turkish Grand National Assembly
TI	Transparency International
TNMS	Turkey's National Military Strategy
UN	United Nations
U.S.	United States



## **EXECUTIVE SUMMARY**

Corruption is too often found as a problem in defense procurement. As defense projects are usually large and some processes involve tremendous amounts of money and benefits, some officials try to find loopholes to take advantage of military projects. However, only a few cases are ever investigated because the involved officials commonly hide behind the secrecy of national security to protect themselves from inspection. Moreover, there are few measurements indicating the level of transparency. Therefore, inefficient processes attract dishonest officials and suppliers who intend to exploit the national interest. Their actions cause problems of corruption during the defense procurement process. This study will also examine existing transparency theories, explain general defense procurement process and fraud cases, and compare the defense procurement of Thailand and Turkey, in particular, in terms of transparency.

The definition, measurement, and implementation of transparency theories have to be described before analyzing defense procurement. Transparency has to be clarified in order to understand the optional tools for evaluating the process, as there are several different explanations of transparency. Therefore, this study will use some perspectives from Transparency International as a main justification. Transparency International is the primary non-governmental organization monitoring corruption in the world. It uses the Corruption Perceptions Index (CPI) as a tool. This tool is used to demonstrate the perceived level of transparency each country has. As the index shows across-countries transparency, it enables us to comprehend the causes and consequences of corruption in different countries. Many types of corruption are explained in order to show that corruption is a global problem that is difficult to detect. Thus, transparency theories are essential for measuring the extent of corruption in the defense procurement process.

Furthermore, this research uses a case study approach to explain each stage of a procurement process and identifies the laws and regulations that are imposed, especially in military practice. Since there are many stages in the procurement process, each stage is explained in order according to standard practice and international regulations. When each stage is explained, the characteristics of the process will be obvious. The most

important characteristic of the defense procurement process that adversely affects transparency is “secrecy.” Because national security can be compromised by disclosed information, information related to the procurement process is often concealed, which makes investigation challenging. The process can be reliably monitored only from an external aspect. If there is no internal investigation, however, officials can hide their exploitation behind secrecy. This may produce more opportunities for corruption. This study specifically focuses on a couple of fraud cases showing problems in transparency of procurement in the United States; they are examples of transparent analysis for Thailand and Turkey.

Finally, a comparison of transparency in defense procurements will be conducted to indicate similarities and differences between Thailand and Turkey. The problems of defense procurement of each country are studied in order to compare and contrast their weaknesses and strengths. These analyses reveal different possible causes of corruption. Due to the complexity of the defense procurement process, CPI is utilized as the indicator of transparency. Reviewing CPI in each topic will help readers clearly interpret the scores and ranking of both countries. Although there are some different factors affecting transparency in both countries, most causes of corruption arise from the immorality of officials and suppliers as well as an inefficient procurement process. Therefore, comparison of the processes of both countries helps inspectors more easily identify the faults of the system.

In conclusion, the study examines the defense procurement systems in Thailand and Turkey in terms of transparency. Transparency International is consulted to explain the transparency of the process. Even though secrecy and complexity are barriers to investigating the defense procurement process, some cases indicate that transparency can be measured with existing tools, especially the CPI. Comparing CPI scores helps inspectors determine the level of transparency of particular countries’ procurement processes as well as how different or similar they are in each area. A comparison of the procurement processes of Thailand and Turkey reveals faults in their processes and identifies improvements that can be implemented to eliminate such defects. As a result,

the defense procurement process in both Thailand and Turkey can move forward in terms of transparency.

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## **ACKNOWLEDGMENTS**

First of all, I would like to present my gratitude to my beloved country Turkey and the Turkish Army for giving me such a great opportunity to get my MBA degree from Naval Postgraduate School.

Then, I would like to express my gratitude to my wife, Fatma, who have supported me not only throughout my time in NPS but also during my preparation time for Turkish War Academy exams. Her continuous support and encouragement have made my project enjoyable and my dreams come true.

To my project partner, Paul, I feel lucky to share this project with you. I think this project has contributed our friendship a lot. I hope to see you in the places you desire.

**Sincerely, Mehmet Simsek**

I would like to thank my instructors in Royal Thai Navy Language Center who provide me not only English language skills, but also the preparation and guidance for studying in the United States.

A special thanks to my family: Words cannot express how grateful I am to my wife, Kanotai Phairotchananan, and my son, Phum Phairotchananan, for their love, inspiration and support that they have shown during the past two years it has taken me to finalize this paper. Furthermore, I would like to thank my parents for their endless love and support as well as many thanks go to all of those who provided me the possibility to complete this report.

**Sincerely, Pakphum Phairotchananan**

We would like to express our special appreciation and thanks to our advisors Professor Dr. Keith F. Snider and Professor Brad Naegle for their assistance and guidance. Without their supervision and help this paper would not have been possible.

**Sincerely, Mehmet Simsek and Pakphum Phairotchananan**

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## **I. INTRODUCTION**

### **A. BACKGROUND**

The problem of corruption around the world is widespread and has been getting worse for decades, especially in developing countries. According to Shleifer and Vishny (1993), “Corruption is both pervasive and significant around the world.” Transparency International (TI), a non-governmental organization that has researched worldwide corruption for twenty years, has created several indexes to measure corruption, including the Corruption Perceptions Index, the Global Corruption Barometer, and the Bribe Payers Index. According to the Global Corruption Barometer 2013, most public opinion around the world agrees that corruption is a serious problem in the development of their countries. Furthermore, Bribe Payers Index 2011 states that the problem of bribery has not improved since the index was first publicized in 2008 (Transparency International, 2013).

The majority of governments dedicate most of their budget to the defense sector, making it the area most vulnerable to corruption. Because of the high value transactions, the defense procurement process is vulnerable to corruption (Campos & Pradhan, 2007). Defense procurements have complex characteristics, including offset contracts, use of procurement agents, and use of the government shield of secrecy. Governments often poorly control these unique risks (Government Defense Index, 2013).

According to the Government Defense Index, in most of countries there is no government requirement for companies to ensure that companies and their subcontractors employ anti-corruption measures (Government Defense Index, 2013). Almost half of the countries do not have procurement oversight mechanisms. Furthermore, contracting agents may use the government shield of secrecy and security to remain hidden from disclosure. Contracting agents use the unintentional governmental help to protect certain records and actions from public release for national security reasons. Currently only a few developed countries have effective mechanisms to discover or detect corruption in the procurement process.

## **B. PURPOSE OF THE STUDY**

The purpose of this study is to understand and identify the key characteristics of defense procurement processes of Thailand and Turkey and to investigate corruption-related vulnerabilities, gaps, and problematic areas specific to the defense procurement cycle. Evaluation of transparency in the defense procurement process will be based on the findings of international organizations such as Transparency International and the Sunlight Foundation. Applications of transparency in all phases of the acquisition cycle of Turkey and Thailand will be compared to understand the key elements that affect transparency. Finally, this study will give recommendations about the best applications that can detect and prevent corruption in defense procurement.

## **C. RESEARCH QUESTIONS**

- What are the steps of defense procurement process?
- What are the areas of highest risk involved in the defense procurement process?
- What are the measures the U.S. uses to detect and prevent corruption in defense procurement?
- What is the importance of the military for Turkey?
- What are the organizations that play an important role in the procurement process?
- What is the civil-military relation in Turkey?
- What are the efforts for building transparency in Turkey?
- How influential is the military in Thailand?
- What are the organizations that play an important role in defense procurement?
- Where are important points in the defense procurement process that can cause loopholes?
- What are problem areas of transparency in Thailand's defense procurement?
- What are main characteristics of the defense procurement process of Turkey and Thailand?
- What corruption-related vulnerabilities exist in the defense procurement cycle?



- Which vulnerabilities pose higher risks in the defense procurement cycle?
- How do existing tools and measures impact corruption vulnerabilities in the defense procurement cycle?
- How transparent are the defense procurement processes of Turkey and Thailand?
- What are the organizations that evaluate the effectiveness of transparency in Turkey and Thailand?

#### **D. SCOPE, LIMITATIONS, AND ASSUMPTIONS**

This study focuses on the transparency of the defense procurement processes of Turkey and Thailand. In this study, corruption risks related to the defense procurement process will be analyzed and some recommendations will be given in order to build transparency in defense procurement. There will be no information on the transparency of other public procurement processes not related to national defense.

#### **E. METHODOLOGY**

This study is limited to analysis of the procurement processes of Turkey and Thailand and to a review of sources related to defense procurement and corruption vulnerabilities, as well as the measures, tools, mechanisms, and international conventions available to detect and prevent corruption. Transparency rules, anti-corruption principles, regulations, and laws aimed to provide transparency is used as a main source in this study. The information on the effectiveness of current transparency precautions is retrieved from the Government Defense Anti-Corruption Index, Transparency International, and the Stockholm International Peace Research Institute (SIPRI).

#### **F. ORGANIZATION OF STUDY**

This study is comprised of six chapters.

Chapter I explains this study's background information, purpose, research questions, scope, limitations, assumptions, and methodology.

Chapter II illustrates the transparency theories applied to the defense procurement process and then explains each step of the defense procurement process. The definition of and the reasons for corruption are also given in this chapter. This chapter provides the

U.S. anti-corruption law and regulations related to the defense procurement process. Finally, an important case study, which helps us to realize the importance of transparency in defense procurement, is analyzed.

Chapter III is comprised of the information on the defense procurement process of Turkey and on the efforts for transparency building in defense procurement.

Chapter IV is comprised of the information on the defense procurement process of Thailand and on the efforts for transparency building in defense procurement.

Chapter V compares the differences and similarities between problems resulting from the different understanding of transparency in Turkey and Thailand.

Chapter VI states conclusions of findings in the previous chapters and recommends some policy changes to reduce corruption in defense procurement.

## **II. OVERVIEW OF TRANSPARENCY IN DEFENSE PROCUREMENT**

### **A. BACKGROUND**

This chapter explores the following research questions:

- What are the steps of the defense procurement process?
- What are the areas of highest risk involved in the defense procurement process?
- What are the measures the U.S. government has implemented to detect and prevent corruption in defense procurement?

This chapter will illustrate the history of transparency and the transparency theories applied to the defense procurement process. Due to the complexity and time-intensive nature of the procurement process, the process is vulnerable to corruption during the procurement cycle. Basic stages in the procurement process are discussed to illustrate how the process can be subject to fraud. Moreover, as the U.S. has significant experience in defense procurement, a couple of cases from the U.S. procurement process are described in this chapter as examples of transparency in practice.

#### **1. History of Transparency**

The history of transparency is fairly recent. It is a relatively new term that originates as a sociological concern of the late 1700s. The first known transparency movement was the Freedom of the Press Act adopted by Sweden in 1766.

From that time onward, sociologists have analyzed transparency in different areas. One famous sociologist, Max Weber, mainly used transparency in explaining social class differences and public administration. According to Weber, transparency is the degree of willingness of a bureaucratic administration to share knowledge with the public. As quoted in Roth and Wittich (1978), Weber wrote:

Bureaucratic administration always tends to exclude the public, to hide its knowledge and action from criticism as well as it can. Bureaucracy naturally prefers a poorly informed, and hence powerless, parliament—at least insofar as this ignorance is compatible with the bureaucracy's own interests. (p. 992)

As humanity expanded, so the meaning of transparency has expanded from its original definition. In the modern world, transparency is defined from varied perspectives, such as political, economic, and cultural ones.

A generally accepted definition of transparency is public access to information, or in other words, “timely and reliable economic, social and political information accessible to all relevant stakeholders” (Kolstad & Wiig, 2009, p. 521). In other words, transparency is nothing more than public access to governmental information. In sum, public access to governmental information and usability of this information is required for transparency (Ginsberg et al., 2012).

Most recently a new kind of civil organization has arisen to promote an “anti-corrupt and transparent world.” Two main examples of such an organization are Transparency International and The Sunlight Foundation.

TI defines transparency as “a principle that allows those affected by administrative decisions, business transactions or charitable work to know not only the basic facts and figures but also the mechanisms and processes. It is the duty of civil servants, managers and trustees to act visibly, predictably and understandably” (Transparency International, 2013a).

The Sunlight Foundation utilizes Internet sources to lobby governments for more openness and transparency (Sunlight Foundation, 2013a). It identifies ten principles in order to assess the availability of government data to public access. These principles are “completeness, primacy, timeliness, ease of physical and electronic access, machine readability, non-discrimination, use of commonly owned standards, licensing, permanence and usage costs” (The Sunlight Foundation, 2013b).

## **2. Measures**

A variety of means has been attempted to measure and evaluate transparency. Although there is no generally accepted approach, there is a consensus on the difficulty of the process. TI uses a Corruption Perceptions Index (CPI), which incorporates surveys about the perceptions of people and organizations on the subject of corruption and

transparency. TI publicizes the CPI score and rankings of countries' every year. This index has a value scale from 0 (highly corrupt) to 100 (highly transparent) to show the level of perceived corruption in countries, and its ranking from 1 (highly transparent) to 177 (highly corrupt) illustrates a particular country's position relative to others.

Every year, TI announces countries' transparency points and their ranking among 177 countries that are being analyzed. Using perception as the basis for evaluation has made the index open to criticism. Because of the willfully hidden characteristics of corrupted actions, it is not possible to measure transparency directly. Therefore, in measuring transparency proxies must be used, which does not always give the same results. But according to one study, there is a strong correlation between the CPI and the two proxies, black market activity and overabundance of regulation (Wilhelm, 2007).

Global Integrity, an independent organization that provides annual transparency reports, measures transparency with the help of surveys and studies of local researchers, journalists, and academics (Global Integrity, 2013).

In another approach, Freedom of Information Act (FOIA) requests are used to measure transparency. FOIA, a U.S. law, enables the public to access governmental information (FOIA, 2013). Some scholars employ the FOIA to measure transparency. For example, Justin Fox has focused on how federal agencies have implemented FOIA principles in their performance. He also gave importance to how agencies respond to information requests and evaluated transparency depending on the requester's satisfaction level (Fox, 2011).

### **3. The Problem Areas**

Although transparency is a popular trend, its importance in reducing corruption does not get proper attention. It is a generally accepted fact that there is a correlation between corruption and lack of transparency. But what is not properly defined and applied is how to use transparency to prevent or discover corruption. According to Kolstad and Wiig (2009) the main problems resulting from a lack of transparency are as follows:

- Corruption is less risky and more attractive.
- It is harder to use incentives to make public officials act cleanly.
- It is hard to select the most honest and efficient people for public sector positions or as contract partners.
- Cooperation is more difficult to sustain, and opportunistic rent-seeking more likely.
- It is more likely for a government to undermine social norms and reduce trust.

#### **4. Corruption**

To study corruption, we need to review the different definitions of corruption. Most of the definitions concentrate on the action of governments or people who have authority over national property, such as “the sale by government officials of government property for personal gain” (Shleifer & Vishny, 1993). The *Oxford English Dictionary* defines corruption as “dishonest or illegal behavior, especially of people in authority: allegations of bribery and corruption.”

Similarly, TI defines corruption as “the abuse of entrusted power for private gain, which eventually hurts everyone who depends on the integrity of people in a position of authority” (Transparency International, 2013a). It is obvious that there are two kinds of people playing an important role in corruption. One is a government official who has authority over government assets or administration, and another is a contractor or vendor who benefits from corruption.

However, although most of the definitions emphasize abuse, some scholars cite other behaviors and motivations associated with corruption. Huntington has described corruption as the “behavior of public officials, which deviates from accepted norms in order to serve private ends.” He argues that some forms of corruption help stimulate economic development, especially in situations where there is a rigid administration or poor government policy (Huntington, 2006). Leff makes a similar argument (Leff, 2002).

#### **5. Theory of Corruption**

There are many different forms of corruption. Shleifer and Vishny divide government corruption into two categories:

First, “corruption without theft” occurs when officials add marginal costs on the price of goods. Customers pay more to get certain goods or services from the government. Therefore, the government still gets its fee or cost of goods sold, and the officials get the marginal cost as a bribe.

The second case is “corruption with theft.” This is when officials secretly sell government goods or services and do not return any proceeds to the government. The officials get the price of goods or services as a bribe. As this price is usually lower than official price, the demand for corruption with theft is higher than without theft. Thus, the corruption with theft spreads more easily because its result meets the interests of both officials and buyers (Shleifer & Vishny, 1993). Obviously bribery is mainly a medium for corruption in this explanation. The public loses some social benefits, while the parties involved in the bribing activities gain instead.

Transparency International classifies corruption into three main types: grand corruption, petty corruption, and political corruption (Transparency International, 2013b), which it defines accordingly:

- Grand corruption “consists of acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public good”
- Petty corruption “refers to everyday abuse of entrusted power by low- and mid-level public officials in their interactions with ordinary citizens, who often are trying to access basic goods or services in places like hospitals, schools, police departments and other agencies”
- Political corruption “is a manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth”

Elizabeth Sietsema identified corruption from the perspective of a public official. She cites the following four different types of corruption (Sietsema, 2005):

- Theft and embezzlement take place when public goods and services are stolen or exploited illegally by officials who can access to government property. This violation causes the loss of funds for the public expense. Therefore, only officials receive benefits but the public loses their interest in the stolen goods or services.
- Self-dealing or conflict of interest occurs when officials take advantage from their position in conducting or selecting business transactions for

their own benefit rather than group benefit. They choose to act in the way that they personally receive benefits. Therefore, this act can ruin competition and create a monopoly, which is inefficient for economic development.

- Nepotism and patronage are the use of officials' authority to promote their family, friends, or partisans to be in influential positions. It is usually found in political practice because it helps political parties to support their stability. However, nepotism and patronage can lead incompetent or unethical people to important positions in organizations and leave out some capable personnel. In fact, patronage strongly depends on social norms and some cultures cite patronage as a common practice. Therefore, it can exist in the working environment without any notice.
- Bribery and extortion are similar, but extortion differs from bribery in that the officials ask for payment in exchange for their decision or vote. At least two groups of people gain their interests by using money or benefit from the exchange of complimentary goods or services. Bribery is used most often in corruption. The bribery in high levels of management has a stronger impact on the economic scale. High-level officials have the authority and ability to make a decision involving the use of public goods and services.

## **6. The Consequences of Corruption**

Shleifer and Vishny (1993) agree that corruption may be costly to economic development for a couple of reasons:

- “The weakness of central government” means when the government allows its officials and private agents to seek bribes for supplementary benefit, buyers can access public goods and services without regulation based upon a bribe they pay. This can result in higher and higher costs due to the accelerating bribes, impeding new investment due to the deficiency of regulation and price.
- “The distortions entailed by the necessary secrecy of corruption” means that since the corruption is illegal, it has to be kept as a secret. Benefits gained from corruption can motivate people who administer a country and are likely to change its investment from highest value project into lowest one in order to seek more personal profit from the opportunities for secret corruption. Since the lowest value projects, such as defense or infrastructure, have a tendency to be corrupted more easily and they are attractive for government officials, and the distortions can discourage necessary investment such as healthcare or education.



## **B. PROCUREMENT PROCESS**

According to the *International Handbook of Public Procurement*, the procurement process can be divided into many stages (Thai, 2009):

### **1. Procurement Planning**

Procurement planning determines what the government is going to purchase and when. Procurement phase provides information on the alternatives for goods and services and highlights possible risk so that officials can make a decision properly. To ensure that procurement will meet the requirement in the most effective, economical, and timely manner, a procurement plan is usually created as soon as the agency's need is known. A budget cannot be spent by government agencies until it is appropriated or apportioned, which involves a very long and complicated process. Therefore, planning regularly starts in advance of the fiscal year.

### **2. Preparing and Processing Procurement Requests**

The procurement request (PR) is a request showing the important information and approvals for procurement, such as the need of users. The user agency prepares and submits the PR to the central procurement office in order to begin conducting the procurement action. The procurement staff and the users have to discuss and consult in detail with each other so that they can get precise information before releasing a solicitation. This stage may include conducting market research to collect and analyze information about vendors and products existing in the market so as to identify sources and alternatives.

### **3. Developing and Reviewing Requirements Documents**

By developing and reviewing requirements documents procurement officials can better ensure that criteria in solicitations at least meet the minimum requirements of the agencies. These requirements documents include specifications, statements of work (SOW) or statements of objectives (SOO), which indicate an item's performance and objective but not the item's capability that vendors offer. In other words, the SOW or SOO identifies the agency's reason for procuring a product or service as well as the

agency's expectations for the product or service's performance. These documents, however, do not specify a vendor or its capabilities. Also, the requirements documents should consider supply support options that can provide support to other similar existing items.

#### **4. Planning for Evaluation**

Teams, methods, and criteria have to be considered to evaluate proposals in order to achieve the best value procurement in terms of cost, performance, and schedule. An evaluation team consists of various kinds of professional staff who are appointed to the procurement committee. They help user agencies to develop procurement plans for identifying evaluation criteria, which create relative merit of one proposal over others. The evaluation team also has to ensure that all offerors are treated in an equal and fair manner in accordance with government policy or common practice. Ultimately, these criteria are used to identify the agency's needs in order of priority so that countries will acquire "best value" items.

#### **5. Contract Award**

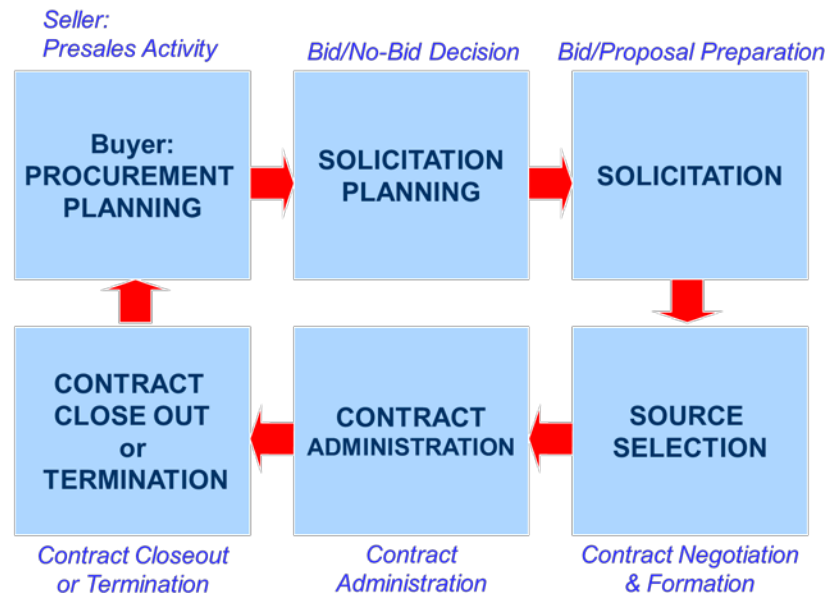
After awarding the contract to a selected offeror, the procurement professional manages contract-awarded activities, which include determining responsibility, preparing the award, signing the contract, debriefing the losing companies, and coping with possible protests while complying with related laws and regulations. Determining responsibility and a binding agreement helps to ensure that the contract is lawful and more tangible. Also, being able to request a debriefing helps offering companies to know why with their proposals were not selected and how to improve for the future. However, the contract award procedure may vary depending on contract methods and results.

#### **6. Contract Administration**

A project manager or a contract administration team will issue a notice to proceed, which is a set of contract administration documents that ensure the awarded contractor will comply with the conditions in the contract. During this stage, if there is any dispute, it should be resolved according to the procurement laws and regulations. In

some complex contracts, the contract administration team consists of various personnel from different fields, such as technical project personnel, financial auditors or legal counsel. In some guidance, contract administration is not the final stage of the procurement process. The final stage in those situations is contracting close out or termination. This stage is not always included because it takes place at the end of an item's life cycle, and some items have long life cycles. A warship, for example, can have 40-year or longer life cycle.

Similarly, Garrett simply summarized the procurement process into six steps according to the flowchart shown in Figure 1 (Garrett, 2007).



Source: World Class Contracting, 4<sup>th</sup> edition, 2007

Figure 1. Procurement Cycle (from Garrett, 2007)

### C. CAUSES OF CORRUPTION

Although it is certain that immorality of people is the primary cause of corruption, some characteristics of the procurement process can motivate officials to commit corruption. *The International Handbook on the Economics of Corruption* discusses

possible causes of corruption; some of them are related to corruption in defense procurement.

### **1. Size of the Public Sector**

Government size and corruption tend to have an inverse relationship with each other. There is evidence that in high-income countries, which have large governments, their corruption problems relatively decrease (Graeff and Mehlkop, 2003). By contrast, small governments in less affluent countries are likely to experience corruption in the procurement process because these governments usually do not have enough budget or do not have the necessary liquidity to operate efficiently. The lack of resources from people's taxes encourages officials to get funding from corruption. Furthermore, redistribution activities have more potential to be corrupted than other types of government expenditure. Due to the fact that most defense procurements are enormous, tremendous amounts of money can motivate corrupt officials to commit fraud.

### **2. Regulatory Quality**

The poor quality of regulations is a major factor in corruption, while effective regulations can reduce corruption (Ackerman, 2006). Ill-designed regulations may induce officials to exploit national resources as corrupt officials make less effort to find loopholes. If government regulations are vague and complicated, there are more opportunities for corruption to be committed. On the other hand, the bribe can provoke immoral officials to distort policies and take advantage of resources. This exploitation can make good regulations ineffective if officials are unethical. However, although detecting bad regulations and reforming them can reduce corruption, distinguishing between good and bad regulations is difficult and not obvious. Therefore, a well-designed regulation should be clear and promote honesty so that it can promote the integrity of procurement projects.

### **3. Lack of Economic Competition**

“Corruption simply mirrors the absence of economic competition” (Ackerman, 2006). When government promotes competition for certain projects, suppliers tend to

lower their prices to gain a competitive advantage over others. This practice results in suppliers receiving less profit. As the suppliers have limited profit to use as a payoff, corruption decreases. On the other hand, if there is less competition, corruption can occur more easily because suppliers can economically control their prices and raise profit. This additional profit can be used as a bribe for exchanging a share. It is certain that when there are higher barriers to entry markets, immoral officials and suppliers have more opportunities to commit corruption. This suggests that competition and corruption also have an inverse relationship with each other. Thus, in order to reduce corruption, defense procurement should provide incentives to foster competition.

However, only having multiple vendors cannot avoid corruption. When there are many corrupt firms attending the competition, they can make an illegal agreement to set prices artificially higher than the market prices. Bid rigging can ruin the benefit of competition. Although the communication between bidders is difficult to monitor, the government should have laws and policies as well as market price to detect this conspiracy.

#### **4. Culture**

According to the *International Handbook on the Economics of Corruption*, the level of generalized trust, religion, and acceptance of hierarchy play an important role in cultural causes of corruption. Countries that are more accepting of hierarchy but have low generalized trust are more likely to experience corruption than countries that have the opposite characteristics. Besides, the different conditions of value, influential gender, and history in each country can be factors of corruption. These cultural preconditions seem to be more difficult to reform because after reform, societies have a tendency to return to their intact level of corruption. The effective way to choose a proper anti-corruption method is to first consider cultural precondition and then select the suitable one. For example, high hierarchy society should use a top-down method to prevent corruption as top personnel have high power and influence to their subordinates, so they can create anti-corruption practice or policy more effectively.

Therefore, causes of corruption can be identified by the cultural preconditions of a particular country.

#### **D. U.S. ANTI-CORRUPTION LAW AND REGULATIONS IN DEFENSE PROCUREMENT**

Because of the complex nature of corruption, it is difficult to measure and detect corrupt acts. Moreover, perception of corruption differs from culture to culture and country to country. Therefore, this study selected the law and regulations of the United States, which is a developed country having a good rank on the Corruption Perceptions Index (CPI), as examples. In the U.S., there are some federal and state level regulations that aim to prevent corruption. The U.S. also accepts some international laws for fighting corruption.

##### **1. Federal Acquisition Regulation**

The Federal Acquisition Regulation (FAR) is a major regulation that the U.S. imposes on the procurement process. It is publicized to use for acquisition of supplies and services and contract procedures, which are applicable for all of the U.S. Federal Government agencies, including the Department of Defense (DOD). This set of regulations has the force and effect of law; therefore, contracting officers and suppliers have to comply with the requirements of the regulations. FAR also prescribes the policies of Contractor Code of Business Ethics and Conduct, which require contractors to conduct their business with the government with integrity.

##### **2. General Law on Bribery and Corruption**

According to U.S. law, bribery is considered as a crime under several federal and individual state statutes. Prohibited conduct includes “paying, attempting or promising to pay, U.S. or non-U.S. government officials improperly to influence their official acts, or, in the private context, causing an employee or agent of a company to act in a way contrary to the interests of their employer” (Woolf Committee, 2008, p. 139). Bribery of both U.S. and non-U.S. government officials is prohibited by U.S. federal law. In

addition, there are individual state laws that make bribery a crime (Woolf Committee, 2008).

### **3. U.S. Federal Law on Bribery and Corruption (The U.S. Foreign Corrupt Practices Act)**

The U.S. uses the Foreign Corrupt Practices Act (FCPA) as a main anti-corruption tool. FCPA was enacted in 1977 with the intention of halting corrupt practices and increasing public confidence in the integrity of business. The main reason for enactment of FCPA was the Watergate political scandal. The FCPA contains both anti-bribery and accounting provisions.

All U.S. persons, companies, and company employees must comply with the FCPA. The FCPA can also apply when non-U.S. individuals engage in prohibited acts within the United States (Woolf Committee, 2008).

The Department of Justice (DOJ) and Securities and Exchange Commission (SEC) have the responsibility of enforcing the FCPA's anti-bribery and accounting provisions. The U.S DOJ has directed some actions that show the elements of effective programs for transparency:

- “A clearly articulated corporate policy against violations of the FCPA and other applicable anti-bribery laws;
- The designation of senior official(s) with oversight responsibility;
- The establishment of a committee to review third-party relationships;
- Due diligence procedures;
- A training program;
- Disciplinary procedures regarding violations of the compliance program;
- Procedures to report suspected improper conduct, including an anonymous ‘hotline’;
- Contract language in consultancy, joint venture and other agreements with business associates that proscribe improper payments;
- The maintenance of books and records and establishment of a system of internal accounting controls; and
- The periodic internal audit of the program” (Woolf Committee, 2008, p. 140 ).

#### **4. U.S. State Law on Bribery and Corruption**

Other than the federal and state laws described previously, the U.S. has accepted several other global anti-corruption laws to prevent corruption on the international level. The regulations accepted by the U.S. are the:

- Inter-American Convention against Corruption (1996)
- Organisation for Economic Co-operation and Development Convention against Bribery of Foreign Public Officials (1998)
- United Nations (UN) Convention against Corruption (2003)

#### **5. United States Defense Industry Initiative (DII) on Business Ethics and Conduct**

DII is a non-profit organization that is comprised of leaders and employers from 77 companies. The main purpose of the organization is to provide a culture of integrity and transparency in the DOD's businesses. DII shares best practices to provide the highest ethical standards for government agents to apply. DII makes industry sources available to help train employees and to promote an ethical culture in compliance with laws (Styles, 2013).

### **E. DRUYUN CASE**

Although there are some anti-corruption laws intended to prevent corruption in the U.S., sometimes these laws are not enough to deter people from dishonest actions. To illustrate a problem of corruption in the procurement process, in this section we examine the Druyun Case—one of the infamous cases involving fraud, especially conflict of interest—as it relates to transparency.

#### **1. Background**

Darleen A. Druyun, the Principal Deputy Undersecretary of the United States Air Force (USAF) for acquisition, was one of the highest officials responsible for procurement who provided advice on acquisition to senior executives in the Department of the Air Force. In October 2004, she pleaded guilty to violating “the conflict of interest” statute. As she was nearing retirement from the USAF, she asked for employment for herself from The Boeing Company while she was an Air Force official



who was directly involved in the lease of 100 Boeing KC 767A tanker aircraft (Gayton, 2004).

In FY 2002, the DOD Appropriations Act authorized the USAF for the acquisition of refueling aircrafts replacing the fleet of KC-135E (Stratotankers), aging Boeing-built tankers. The contract for this acquisition involved leasing 100 KC 767A aircraft rather than purchasing them. Although Congress approved the proposed lease, the lease proposal has been controversial in regard to transparency. Table 1 is a cost comparison between leasing, non-multiyear buying, and multiyear buying, which illustrates why the lease proposal has been controversial.

(In billions of dollars/percent difference)

Cost of Air Force Lease Option	Cost of Non-Multiyear Buy with Air Force Assumptions	Cost of Multiyear Buy with Alternate Assumptions	Non-Multiyear Buy vs. Lease with Air Force Assumptions		Multiyear Buy vs. Lease with Alternate Assumptions	
\$21.1	\$17.2	\$15.4	\$ in Billions	% Diff.	\$ in Billions	% Diff.
			- \$3.9	- 19%	- \$5.7	-27%

Source: CRS calculations based on Air Force Model, July 1, 2003.

Table 1. Cost of Lease vs. Multiyear Buy and Alternate Assumptions

Compared with other buying methods, leasing is more expensive. However, USAF dealt with the lease of 100 KC-767 tankers from Boeing after source selection.

At the time, Druyun was working in the USAF and overseeing many acquisition programs, including a controversial \$21 billion deal for Boeing KC 767A tanker aircraft. As she had worked in the acquisition field for longer than ten years, she was well known and had a good relationship with executives of giant companies, especially Michael Sears, Chief Financial Officer of Boeing. Back in 2000, Druyun contacted Sears to aid Heather Druyun, her daughter, and Michael McKee, her daughter's boyfriend who became her son-in-law later, in getting jobs at Boeing. This act shows a good relationship

between Druyun and Boeing, and it is certain that one good turn deserves another. As she was influential in the Air Force acquisition decision-making, many huge companies such as Lockheed Martin and Boeing sought after Druyun; so they both offered her a good position and salary. Besides, Druyun planned to retire in November 2002 and was looking for a job after retirement. The timing seemed right for her and the company, but not the USAF. In November 2002, Druyun became a Boeing Vice President with a generous salary (Global Security, 2013).

As Druyun negotiated for her and her family members' employment with Boeing while she was an influential government official, her behavior led to the violations of many laws and regulations. She violated several statutes including the Conflict of Interest statute, 18 U.S.C. § 208; the Major Fraud Act, 18 U.S.C. § 1031, 18 U.S.C. § 1001, and 18 U.S.C. § 371 (Gayton, 2004). Also, she violated the Federal Acquisition Regulation (FAR), § 3.101-1, which provides that "Government business shall be conducted in a manner above reproach and, except as authorized by statute or regulation, with complete impartiality and with preferential treatment for none. Transactions relating to the expenditure of public funds require the highest degree of public trust and an impeccable standard of conduct. The general rule is to avoid strictly any conflict of interest or even the appearance of a conflict of interest in Government-contractor relationships" (FAR, § 3.101-1). As a result, she was sentenced to nine months in prison and Michael Sears was sentenced to four months. The Air Force's lease of 100 KC-767A tankers was frozen and eventually canceled in 2006.

## **2. Analysis**

### ***a. Conflict of Interest***

In this case, Druyun had too much control over all the acquisition process without sufficient oversight, resulting in a conflict of interest. The conflict of interest cannot be easily detected until personal benefits are revealed. In this case the corruption, a conflict of interest, was obvious because the official took advantage of her position for her own benefit. Druyun gave a favor to Boeing by supporting the contract for KC-767A tankers because she expected employment opportunities for herself. The investigators would not

have discovered this violation if Druyun had not retired and been employed at Boeing subsequently. This shows the lack of proper oversight mechanism during the process, which allowed the corruption to occur and which caused a lack of competition.

***b. Lack of Economic Competition***

The consequences of Druyun's action ruined competition between among companies. When the market lacked economic competition, only Boeing could take advantage of the KC-767A tankers contract by raising prices in order to gain more profits for the company. It is certain the Boeing had to make additional profits by paying Druyun back in the form of a salary or bonus. Similar to a monopoly, Boeing could determine the price of contract and made the contract much more expensive. Because the KC-767A tankers are considered essential to the public's welfare, Druyun distorted this competition in the high level of management so as to benefit at the expense of the public good. Accordingly, the price of the lease was almost \$6 billion higher than purchasing. This abuse can be considered as a grand corruption, and the price of corruption bears down on USAF and Government, and finally on the taxpayers.

***c. Size of Procurement***

According to a Congressional Research Service (CRS) report, "By the year 2005, the Air Force would need 500 to 600 KC-135R tankers—or their equivalent—to meet the tanker needs of the national military strategy" (Bolkcom, 2003); the number of required tanker aircrafts suggests that size of the whole project is gigantic. Although the project that Druyun dealt with was just one sixth of the total requirement, its cost of \$21 billion tempted both officials and companies to commit fraud. Corruption could make offenders rich, and it is worth for them to take such a risk by inflating the price of contracts or changing the method of acquisition.

***d. Laws and Regulations***

Laws and regulations are the main tools for helping the procurement process to be more transparent, so they should be efficient. Laws and regulations, such as the Code of Business Ethics in the FAR, are also guidance for ethical standards. The Druyun case

shows that effective regulations and law enforcement can prevent corruption in the procurement process even though the conflict of interest could not be detected immediately during the crime. The FBI was able to impose law by using its authority to investigate back through the years in the case, and apparently, found there were crimes committed. There have been many ethical rules and effective law enforcements as well as improved procurement regulations in the U.S., such as DOD Instruction 5000.02, and the Weapon Systems Acquisition Reform Act of 2009. It is more difficult for officials to commit fraud in the U.S. than it is in other countries whose laws are not well designed. Thus, the quality of the laws and regulations can control the amount of relative corruption.

*e. Vulnerable Stages in the Procurement Process*

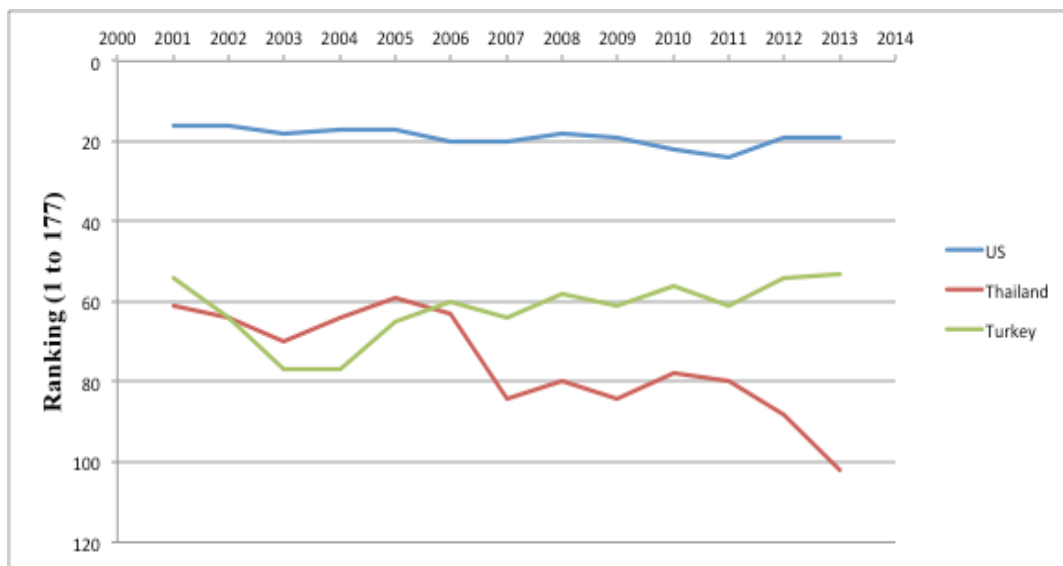
In the procurement process, although there are many complex stages, only a few stages provide sufficient opportunities and incentive for people to commit fraud. These stages include those in which a key decision is made such as source selection, contract award or contract negotiation. In the Druyun case, although Druyun did not make decisions for the lease on her own, during the contract negotiation, she could influence the committee to favor Boeing and reveal some information that gave Boeing a competitive advantage. She traded her favoritism and influence for prospective employment with Boeing, distorting the procurement process, which is intended to acquire the best value items for the country. As a result, the government lost benefits while the supplier got more. Therefore, the decision-making stages in the procurement process have to be monitored carefully.

**F. CORRUPTION PERCEPTIONS INDEX (CPI)**

After reviewing the prominent fraud case related to the defense procurement process in the U.S., this study now introduces how the defense procurement in the Druyun case involves a transparency issue. With effective and accessible regulations and laws of procurement, the U.S. defense procurement process is used as an example of study in transparency. The United States is considered to be in the world's top 20 for

transparency because its average CPI for the last 12 years is 7.32, while the average CPIs of Thailand and Turkey are about 4 (see Figure 2).

As this study will show, it is understandable that the problems of corruption in Thailand and Turkey are more severe and complicated. Although the main cause of corruption is the lack of people's morality, other factors can encourage or discourage officials or contractors from engaging in dishonest activities. The Druyun fraud case is a useful starting point for understanding which aspects of procurement cause corruption and which tools are used to solve problems.



Source: Transparency International, 2013c

Figure 2. CPI Comparison by Ranking.

However, can CPI provide reliable and valid results of corruption and serve as a real corruption indicator? As there are many interpretations of the CPI, critics differ on its value. Transparency International (TI) released CPI as a “corruption” measurement instrument for determining the level of corruption in 177 countries around the world. TI still publicizes the new CPI score and rankings every year. This index has a value scale from 0 (highly corrupt) to 100 (highly transparent) to show the level of perceived corruption in countries, and its ranking from 1 (highly transparent) to 177 (highly corrupt) illustrates a particular country's position relative to others.

Saisana and Saltelli believe that CPI is an effective indicator for several reasons. Although the CPI uses surveys from 13 sources that are highly associated and seem to be biased, it is not dominated by the individual sources. Therefore, its information is non-redundant because it uses statistical justification to simplify averages across the sources. Also, having global parameters to determine countries' rankings covers more countries, so CPI can demonstrate effectively the level of corruption in countries. This method differs from some sources that assess only the same level of corruption. Finally, CPI considers adjusting the statistical significance among countries when comparing the results to make clear that the CPI scores are carefully interpreted from the same common sources. Thus, CPI can contribute effectively and fairly to the measurement of countries' perceived corruption at the worldwide level (Saisana & Saltelli, 2012).

However, De Maria argues that CPI projects the image of countries in terms of corruption rather than assisting countries to reduce corruption. Even though TI does not intend to create "brand" for countries, CPI's rankings can make some countries be seen as winners and losers. Certainly information from TI, the most prominent anti-corruption non-governmental organization in the world, influences people's perceptions. This would create brand for countries, especially the country at the lowest rank. For example, Haiti, Myanmar, and Iraq are at the bottom of the table and considered to be corrupt countries. They are discouraged from adapting themselves to perform better because the correlation between perceived and actual corruption is low. Hence, CPI may not be the best solution to deterring corruption and may even decrease the performance of anti-corruption Programs (De Maria, 2008).

### **III. TURKEY'S PROCUREMENT PROCESS AND TRANSPARENCY**

#### **A. INTRODUCTION**

This chapter presents an analysis of the Turkish defense procurement process. As a member of NATO, Turkey uses NATO procurement standards to some extent. But, there are also some other principles applied to the Turkish defense procurement process due to the strategic location of Turkey and the power that the military has. Beginning from the 2000s, there has been an integration process with the European Union (EU) that affects not only Turkey's relations with other countries but also every kind of process, including defense planning, budgeting, and procurement. In addition to this integration process, Turkey has been driving for independent and local defense capabilities to provide security and deterrence and to protect secularity. The Turkish defense procurement process is comprised of organizations that provide vision and decide requirements, and laws and other regulations that provide basic principles applied to the procurement process. This chapter provides detailed information to promote a better understanding of the Turkish defense procurement process.

Chapter research questions underlying the analysis of the procurement process are:

- What is the importance of the military for Turkey?
- What are the organizations that play an important role in the procurement process?
- What is the civil-military relationship in Turkey?
- What efforts are being made to build transparency in Turkey?

#### **B. OVERVIEW**

Turkey is located at the strategic crossroads of Europe, Asia, the Middle East, and the Caucasus. This area can be described as the home for unending problems. Also, Turkey faces internal security threats, including ethno-nationalist extremist, religious, and right/left wing groups. Some of these threats can be identified as the Kurdistan Workers' Party, al-Qaeda, Turkish Hezbollah and the Great Eastern Islamic Raiders' Front.

Considering all these security problems, Turkey has a very big army, the largest in Europe and the second largest in NATO, to provide deterrence and security. However, having a big army is not enough to ensure deterrence. Modernization and technology are also needed in fulfilling security missions. For this reason, Turkey looks for a modern army equipped with high-tech systems. In order to satisfy its security needs, Turkey stands as the fourth largest importer of arms and the world's twenty-eighth largest arms exporter. In recent years, Turkey has been driving for self-sufficiency and independence in defense procurement. Administrative, political, financial, and military reforms are being implemented to make real the desire for independence in defense procurement (McGregor, 2008).

### **C. HISTORY**

The history of the Turkish defense industry goes back to the seventeenth century. Until the Industrial Revolution that took place in the eighteenth century, the Ottoman Empire was one of the powerful governments of the world and had the most advanced technology in Europe. But starting after the Industrial Revolution, the Turkish defense industry gradually faded away.

In the first quarter of the twentieth century, there were significant obstacles for the Turkish defense industry. The Mondoros Ceasefire Agreement, signed at the end of the First World War for Turkey, required that all military facilities shut down (Ozlu, 2006). But after the Independence War (1919–1923), establishing an independent defense industry was important for the newly born republic. Therefore, ammunition and maintenance/repair facilities were established as a first step for an independent defense industry.

During the Second World War, Turkey refrained from entering the war, but at the same time focused on being prepared for a probable war. After becoming a NATO member, Turkey's defense industry changed its area of focus. With the help of U.S. aid, Turkey's defense industry started to grow internationally. The first State Economic Enterprise in the defense area emerged in this period, one of which was Machinery and



Chemical Industry Corporation, established to provide ammunition for Turkish Armed Forces (TAF).

Turkey's Peace Operation to Cyprus (1974) can be seen as a milestone for the Turkish defense industry. The U.S. embargo followed by the operation, necessitated establishment of national defense industry. The first initiatives of this period were ASELSAN (1975) and HAVELSAN (1982). ASELSAN was founded in 1975 by the Turkish Army Foundation to meet the communications electronic needs of TAF. ASELSAN is now Turkey's leading electronics company that meets almost all of the communication needs of TAF. The second initiative of this period was HAVELSAN, which was founded by Air Force Foundation to meet maintenance requirement of radar systems that Turkish Air Forces have. Currently, HAVELSAN takes parts in wide range of defense related activities, some of which are modernization of aircrafts and production of missile systems.

The 1980s can be defined as the reorganization decade for the defense industry. After the 1980 Coup, the military government aimed to establish a highly developed defense industry and to modernize Turkish Armed Forces. The establishment of the Defense Equipment Directorate as a state enterprise was the first step in this direction. However, the shortcomings stemming from its inert status blocked its success and before long the Law No.3238 established the Undersecretariat for Defense Industries (SSM) in 1985. In 1987, the Foundation for Strengthening the Turkish Armed Forces was established to help develop defense capabilities. In 1998, Defense Industry Politics and Strategy Document that contains the government directive for the defense industry was published. Turkish defense systems acquisition policy redefined and restructured by this document (Undersecretariat for Defense Industries, 2014a).

The tables in Figures 3 and 4 show Turkish defense spending for the last 25 years. According to the *SIPRI Yearbook 2013*, Turkey is in the fifteenth position by military spending.

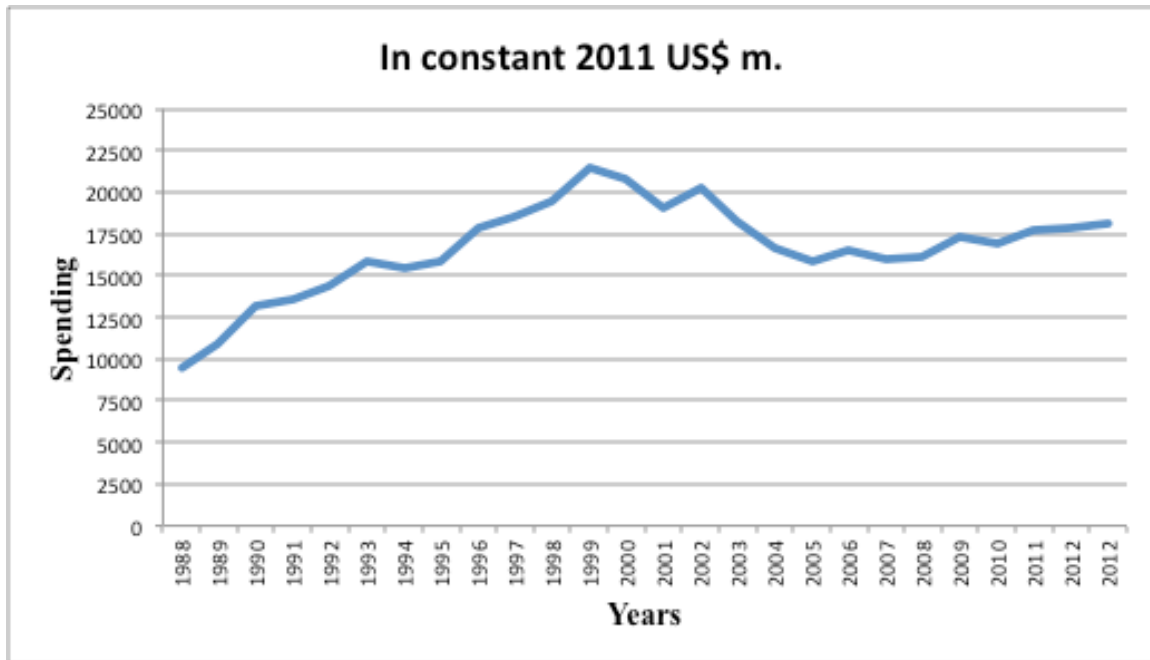


Figure 3. Defense Spending of Turkey 1988–2012 (from SIPRI, 2013).

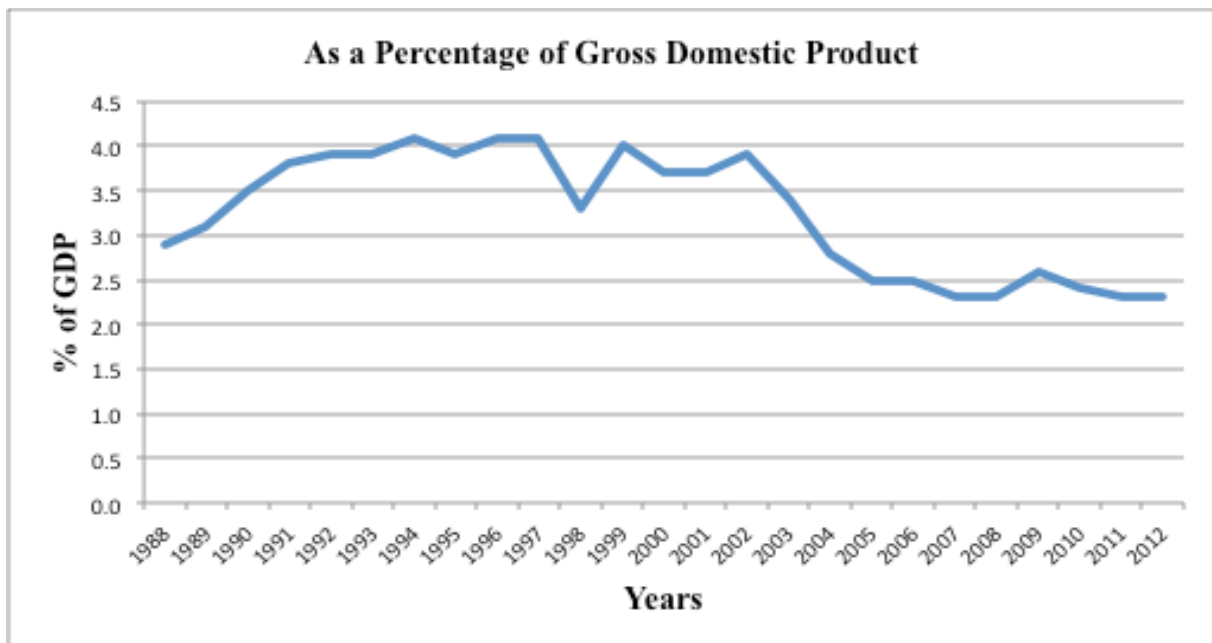


Figure 4. Defense Spending as a Percentage of the GDP 1988–2012 (from SIPRI, 2013).

#### **D. DEFENSE INDUSTRIAL CAPABILITIES**

Since the establishment of SSM, the Turkish defense industry has started to grow rapidly. Until the 2001 economic crisis, defense spending of Turkey followed an increasing trend. With the 2001 economic crisis in Turkey, the amount of defense spending started to go down. However, the importance of research and development was understood in this period, and R&D received significant investments. With the help of these investments, 54.04% of Turkish defense requirements were met locally in 2011. Among these investments and the areas supported are:

Exports in Defense and Aerospace: 1,262,000,000 dollars as of year 2012

Total Turnover of Defense Industry: 4,756,380,651 dollars

Total R&D Expenses: 772,751,351 dollars

Coverage Ratio of TSK Demands from Domestic Market (YİKO): 54.04 % (As of year 2011)

Table 2 shows that Turkey gives significant importance to R&D and has been spending approximately 5.4% of total defense spending on R&D. The main objective of spending significant amount of money on R&D is to procure most of the defense systems on natural sources.

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Procurement</b>	7.677	7.499	7.582	7.334	7.472
	37.6%	37.9%	39.4%	39.6%	39.9%
<b>RDT&amp;E</b>	1.053	1.008	1.035	0.997	1.013
	5.2%	5.1%	5.4%	5.4%	5.4%
<b>Total</b>	20.442	19.768	19.23	18.519	18.724

Source: IHS Jane's Defense Budgets, 2014

Table 2. Turkey's Defense Spending by Function (USD billion).

Turkey uses partnerships in the defense industry to improve its own defense technology—especially partnership projects with the U.S. and Germany that help Turkey

to acquire advanced technology. Table 3 shows the top five countries that Turkey imports from and the percentages of total amount spent on defense imports.

<b>Country</b>	<b>Value (USD billion)</b>	<b>Percentage</b>
U.S.	3217	47%
Germany	2053	30%
UK	548	8%
France	534	7.8%
South Korea	342	5%

Source: SIPRI, IHS Jane's, 2014

Table 3. Turkey's Defense Imports during 2000–2010.

## **E. ORGANIZATIONS IN DEFENSE PROCUREMENT AND THEIR ROLES**

The following organizations have significant roles in Turkey's defense acquisition process:

- Council of Ministers: Deciding general policy
- The Defense Industry High Coordination Board: Providing directives
- Defense Industry Executive Committee: Decision making
- Turkish General Staff: Deciding needs and requirements
- Undersecretariat for Defense Industry (Under Ministry of Defense): Industrialization, procurement, exporting, financing
- Defense Industry Audit Board: Auditing and control of whole process
- Research Centers, Universities: Design, production, R&D and manufacturing. (Secretariat General for EU Affairs, 2014)

### **1. Defense Industry Executive Committee (SSIK)**

Ratified by Law 3238, the Defense Industry Executive Committee (Savunma Sanayi Icra Komitesi, SSİK) is the main body of the defense acquisition system that is chaired by the Prime Minister. The other members of the committee are the Chief of General Staff and Ministry of National Defense. According to the Undersecretariat of Defense Industries (2014c), the main roles of the committee are:

- Making critical decisions relating to defense industry issues and major defense procurement according to the Armed Forces Strategic Target Plan,

- Instructing SSM to conduct research and development of modern arms and equipment, and to have their prototypes built,
- Setting the guidelines for uses of Defense Industry Support Fund. (Undersecretariat for Defense Industries, 2014c)

## **2. Undersecretariat for Defense Industries (SSM)**

Established by Law 3238, the Undersecretariat for Defense Industries is responsible for providing long-term defense policies and continuous flow of financial resources. The SSM is the main institution responsible for developing the national defense industry to modernize the TAF.

According to the Undersecretariat for Defense Industries (2014d), SSM's roles can be summarized as:

- To put into effect the decision of Defense Industry Executive Committee
- To plan production of modern arms and systems
- To establish a mechanism to coordinate offset and export issues

## **3. Defense Industry Higher Coordination Board (SSYKK)**

Consisting of thirteen members, the Defense Industry Higher Coordination Board (SSYKK) convenes twice a year. Members of this board are ministers responsible for financial and defense related issues and, Chief of General Staff. This board mainly has two roles that are:

- Coordination of principles enacted by Council of Ministers
- Determining the procurement policies to acquire weapons/systems (Defense Industries, 2006)

## **4. Defense Industry Support Fund (SSDF)**

Defense Industry Support Fund (Savunma Sanayi Destek Fonu) is a fund provided to the SSM to execute its mission. This fund provides enough money for defense spending. It is a very special fund with bureaucracy-free formality that consists of some portion of levies and some portion of lottery prizes (Undersecretariat for Defense Industries, 2014c).

## **F. LAWS AND REGULATIONS**

### **1. Law Number 3238**

Law 3238, which was enacted in 1985, brought new principles to the Turkish procurement process. Until the enacting of this law, Turkish defense needs were satisfied only by state-dominated firms. This law established the SSM, the Defense Industry Executive Committee, the Defense Industry Support Fund, and the Defense Industry Support Fund. Law 3238 enabled private firms to take part in producing the defense needs of Turkey. Following are the four main principles that are stated in Law 3238 (Undersecretariat for Defense Industries, 2014b):

- “To make maximum use of Turkey’s existing industrial capabilities and potential,
- To provide direction and assistance to new investments that contain high technology,
- To incorporate foreign technologies and to render possible contributions by foreign capital,
- To encourage research and development activities.” (Undersecretariat for Defense Industries, 2014b)

### **2. Resolution Number 23378**

This resolution was enacted to meet the requirements of TAF from the national defense industry. This resolution also shows the means and principles of developing a national defense industry. Since it provides objectives and directives for the defense industry, this resolution is the main document for Turkey’s defense procurement process. Turkey’s National Military Strategy (TNMS) and the Planning and Programming Directive (PPD) are main sources in the determination of the Defense Industry Strategy. (Undersecretariat for Defense Industries, 2014a):

The Defense Industry policy envisages the formation of the infrastructure of a defense industry that:

- Is open to the foreign sector as well as the domestic sector,
- Has an export potential and capability to compete internationally,
- Can produce new technology and has a dynamic structure,

- Makes it possible to have a balanced defense industry cooperation between Turkey and other countries and is influenced to a minimum extent by the changing political conditions and
- Can also engage in production for civilian purposes.” (Undersecretariat for Defense Industries, 2014a):

According to Public Procurement Law, the following methods are used in the procurement process in Turkey:

- Closed and Sealed Envelopes Bidding

This is the main open tendering procurement method. There are different procedures for the items to be procured. For goods and services, the procedure is single-stage and no threshold is applied. On the other hand, for works, the threshold defines the number of stages in the bidding process. If the amount is more than US\$73 million, there are two stages, while below this threshold amount there is only one stage. Contracts are awarded based on the bidders’ qualification scores and the suitability of their bid prices.

- Selective Restricted Bidding

This method is used in the procurement of goods such as aircraft, warships, ammunition and military supplies. In this method, the procurement entity can either advertise or invite a minimum of three previously qualified bidders. The lowest-priced bid gets the contract award.

- Public Bidding

The price bidding method is used in contracts that are estimated to cost less than the threshold, which is defined annually. There are written and oral bid phases of this method.

- Negotiated Procedure

This method is used either in fifteen applications that are defined in the Public Procurement Law or in contracts that are estimated to cost less than US\$2.72 million.

- Competition

This method is used for services, such as architectural services. After judging the best design that meets the requirement, the negotiation method is used to reach the lowest price.

- Other Procedures

There are also some other informal methods that can be proposed by one of the ministers and must be approved by the Council of Ministers (World Bank, 2001).

## **G. ACQUISITION STRATEGIES**

There are some strategies and principles that lead and shape the Turkish defense acquisition process:

### **1. The Defense Industry Strategy**

The Defense Industry Strategy (DIS) can be described as the production of high technology weapons systems in Turkey to meet the needs of Turkish Armed Forces (TAF). To In order to meet this objective, it is required that government assist companies in the defense industry to acquire developed manufacturing capabilities.

Turkey's National Military Strategy (TNMS) and the Planning and Programming Directive (PPD) are main sources in the determination of the Defense Industry Strategy. The Ministry of National Defense is the coordinating authority to perform DIS and to ensure DIS' conformity with Turkey's foreign policy and compliance with international agreements (Ministry of Defense, 2014).

### **2. Weapon System Classification Strategy**

Although satisfying all TAF's defense needs from domestic sources is the main principle, sometimes it is not economical or feasible to do so. Therefore, in Turkey, defense systems are categorized as:

- Nationally produced systems that are to be made inside by using national sources
- Critical system/technologies that are projected to be produced nationally if possible, If not, by joint production with other countries
- Other systems/technologies that are to be acquired from any sources with best performance and lowest cost

Domestic defense capabilities get the priority when meeting defense needs. Procurements other than national sources are evaluated regarding the offset applications. MOD provides offset principles (Ministry of Defense, 2014).



### **3. R&D Strategy**

The Ministry of Defense gives the directives to the research and development (R&D) activities to prepare the national industry for future needs. The objectives of the R&D strategy include:

- Improving R&D activities to produce/acquire higher technology thus modernizing TAF.
- Promoting local/basic R&D activities that can help in improving critical technologies.
- Coordinating and combining all research activities of different organizations to get the most benefit.

Using national technologies is the main principle when it is possible. However, sometimes the use of foreign technologies is required when it is not economically or technically feasible to acquire a particular technology domestically. As a member of North Atlantic Treaty Organization (NATO), Turkey closely follows the R&D activities of other NATO members as well as other developed countries of the European Union (Ministry of Defense, 2014). Any foreign technologies that are to be purchased must be assimilated before using them in satisfying TAF defense needs.

### **4. Offset Strategy**

There was no offset policy in military contracts until the joint F-16 project that came into being in 1983. With this project, Turkey started to understand the advantages and importance of offset practice. SSM is the organization responsible for the administration of offsets. In the first year of offset practice, SSM succeeded in concluding 31 offset agreements. The *Handbook of Offset Regulations*, which defines and explains the offset procedures, was published by SSM in 1991. Also in 1991, the Offset Department whose mission is to oversee offset agreements was established within the SSM.

*The Handbook of Offset Regulations* requires several criteria to meet offset obligations some of which are including the ratio of local contribution, penalties, and time for realizing contracts. Replacement of funds that are spent on the imported defense systems is the main purpose of offset applications (Kizmaz, 2007).

## H. TURKEY'S DEFENSE PROCUREMENT PROCESS

TAF prepares the Planning, Programming and Budgeting System (PPBS) document, on which the Turkish defense procurement system is based. The Chief of General Staff formulates the Operational Necessity Study and Plan Capability Target Document to show the needs of TAF. According to importance of needs, The Chief of General Staff prioritizes needs in line with the decision of the National Security Council. This plan is subject to revision every two years and is applied as part of the Ten Years' Procurement Program (TUBITAK, 1998). This procurement process is illustrated in the workflow shown in Figure 5.



Figure 5. The Procurement System in Turkey (from Kizmaz, 2007, p.85).

## I. TRANSPARENCY IN TURKEY'S DEFENSE PROCUREMENT

### 1. Civil-Military Relations and Public Opinion

Before analyzing transparency in the Turkish defense procurement process, we need to understand how the military is regarded by the nation. "Turkey has been known as a military-nation throughout history and every Turk is a born soldier" (Altınay, 2001, p. 53).

The mission of the TAF is both to protect Turkey against enemies and to ensure democracy and secularism in the country. In addition, the Turkish Army has significant influence in politics. After the foundation of the Turkish Republic, with broad public support, the army gradually got stronger and stronger in the politics. In the history of the Turkish Republic, there have been four coups by which the military aimed to protect the unity of the country, secularity, and democracy. All of these four coups were accepted by the citizens because of the significant trust they have in the army and its role. Also beginning in the 1990s, the Kurdish Insurgency enabled the Turkish Army not only to maintain its influence in politics, but also to gain new economic and political power.

Due to the overwhelming public trust in the army and the political influence the army has, every administration has felt obliged to meet the military's requirements for modernization without asking whether it was necessary or not. Also the army has remained relatively free of corruption, which has enabled it to gain the reputation as being the most trusted national institution in Turkey. For all these reasons, the military has never been asked about transparency with regard to the defense budget (Narli, 2003).

## **2. Transparency Problems**

The Government Defense Anti-Corruption Index analyzes the corruption vulnerability of the ministries of defense and militaries of countries. This analysis provides countries with corruption problems in their defense procurement process. After two years of research, 82 countries were analyzed according to five main problem areas: political, financial, personnel, operations, and procurement. These five main problem areas are divided into subsections to understand the root problems better. The analyzed countries were placed in one of six bands (A, B, C, D, E, and F) according to their scores. Turkey is placed in band "D" and is assessed to suffer from the following problems:

***a. Political Risk***

Analysis of political problems can be divided into three subsections:

- Defense and Security Policy
- Defense Budget
- Other Political Areas

First of all, information about the national defense policy is not disclosed to the public. Although incomes of the Ministry of Defense (MOD) and TAF are part of the national budget, they are not fully publicized. Although enactment of some internal anti-corruption regulations has been completed, their effectiveness seems still uncertain.

***b. Financial Risk***

Analysis of financial problems can also be divided into three subsections:

- Asset Disposal
- Secret Budgets
- Links to Business

Regarding financial problems, there seems to be no control over the transparency of the asset disposal process. The exact portion of military spending that is dedicated to “secret items” is not publicly available. The enterprises that the military have are only subject to regulation by private law and there is only limited information about their finances.

***c. Personnel Risk***

Personnel problems are analyzed in five subsections:

- Leadership
- Payroll and Recruitment
- Conscription
- Salary Chain
- Values, Standards, and Other

In regard to personnel risk area, there is a lack of regulation that would provide for a whistleblowing mechanism.

***d. Operational Risk***

In Turkey, military doctrines do not address corrupt actions in operations. Furthermore, agents who are responsible for detecting and preventing corruption in the field do not get formal training.

***e. Procurement Risk***

Although there are some laws and other regulations in place to provide transparency, the oversight mechanism needs to be developed. Since the National Security Policy Document is not publicly accessible, it is almost impossible to evaluate necessity of procurement activities to meet defense needs. There is also a lack of evidence of audit, competition regulation, and due diligence for offset contracts. Finally, there is no regulation regarding oversight of the agents responsible for contracting. Other problems with the procurement process include:

- Absence of Private Military Contractors: Actually, in recent years Turkey has started to use private military contractors, but the limited number is not enough for transparency.
- Whistleblowing: Turkey has no mechanism for whistleblowing.
- Risk Assessment: Turkey does not apply corruption risk assessment in the defense sector.
- Evaluation of Corruption Risk in the Field during Operations: Turkey does not deploy trained professionals to monitor corruption risk in the field during missions.
- Guidelines or Training on Corruption Risk in Contracting on Operations: In Turkey, there is no training or guidelines for staff to deal with the corruption.
- Robust due diligence requirements for offset programs are lacking in Turkey.
- Transparency of Financing Packages of Defense Procurement: There is a limited disclosure of information about financing of defense procurements.
- Control of Subcontractors and Subsidiaries in Defense Procurement: Turkey, to some extent, fails to meet this criterion. Not all contractors and subcontractors adopt anti-corruption programs (Government Defense Anti-Corruption Index, 2013).

In Turkey the greatest lack of transparency occurs in tracking defense-related expenditures, some of which are reflected under budget headings of other state sectors and departments. With the establishment of the Defense Industry Support Fund (SSDF), law permits extra-budgetary financing of arms under this fund. Between the years 1997 and 2000, 86% of the defense expenditures were reflected in the defense budget. The SSDF covered the rest, which was non-budgetary.

The budget of the Ministry of Defense is open to audit and legal inspection, but in practice, it is not audited. There is a deep confidence in Turkish Army, and the Turkish Grand National Assembly refers to “the necessity of a strong military for the nation’s domestic and foreign security” and “the urgency to reserve the required funds to modernize the Turkish nation’s army at all costs” when it comes to defense spending. This view leaves defense expenditures unaudited (Akca, 2010, p.23).

In Turkey, there is an institution named the Court of Audit (COA), which is similar to the U.S. Government Accountability Office. The main mission of this institution is to oversee all public spending. But after two coups in 1971 and 1980, oversight of military spending was banned. Article 160 of the 1982 constitution that was composed by the leaders of the 1980 coup added the principle of “secrecy of defense spending.” In addition, in 1985, an amendment that prevents arms procurement and military contracts from auditing was made law by the COA (Narli, 2005).

Although some transparency-related issues still remain unsolved in the procurement system of Turkey, there is significant effort at improvement in this area. Progress can also be inferred from the CPI information that TI releases annually. Every year TI announces the CPI ranking of countries, which makes it easier to analyze the historical improvement of transparency efforts. The chart in Figure 6 presents the developing of transparency in Turkey in terms of the CPI. In 2012, Turkey ranked 54<sup>th</sup> among 177 countries and, 54<sup>th</sup> in 2013. Although it is not a big progress towards transparency, this improvement proves that there are some efforts for transparency.



Figure 6. CPI Ranking Trend of Turkey (from Transparency International, 2013c).

## J. EFFORTS FOR TRANSPARENCY-BUILDING IN DEFENSE PROCUREMENT

Since 2001, with the EU and International Monetary Fund requirements, there are major efforts for transparency in all public procurements. In the EU Progress Report in 2002, the European Commission criticized the autonomy of TAF and its spending. In response to this criticism, the Turkish Grand National Assembly (TGNA) abolished the restriction preventing COA from inspecting MOD spending (Akca, 2010). One of the first steps for more transparency in public procurement was the publication of the defense budget by the MOF (Ministry of Finance) on its webpage. In this document, “Kamu Hesaplari Bulteni,” more detailed information can be found on the expenses of the MOD. One of the other arrangements that aim to increase transparency was the Law 4734, Public Procurement Law. This law was enacted in 2002 to provide more information about public expenses. In 2003, another law, the Right to Information Law, enabling citizens to access information on public spending and policy, was enacted. In 2005 with the Law on Public Financial Management and Control it became a requirement to present

more detail on the defense budget to TGNA and to debate longer for the approval of the defense budget (Akca, 2010).

## **1. Publications for Transparency**

In order to make Turkey a more transparent nation in defense procurement, MOD has started to publish several documents about public policy and detailed explanations of defense expenses. The main document, the Annual White Paper, provides very detailed information on defense spending and financial resources. It also reports the MoD's share of the gross national product, transfer and personnel expenses, and special defense expenses, among others.

Another document published yearly is the Annual Report of General Appropriateness of the Budget. This document is prepared by the COA in order to monitor and report the appropriateness of public spending including defense expenses. For a longer-term view of government spending, the public can access the Public Accounts Bulletin published by the MOF. In this document, information about past, current, and future financial targets and realizations can be found.

Finally, the *National Gazette*, which is a regular daily publication, provides information on the defense budget and defense budget bills.

In addition to these publications, other information on defense expenses can be found in the web pages of MOD, Turkish General Staff, and MOF (Narli, 2005).

## **2. Organization for Transparency: The Turkish Economic and Social Studies Foundation (TESEV)**

TESEV is an independent non-governmental think tank that focuses on analyzing social, political, and economic problems facing Turkey. It was founded in 1994 and is based in Istanbul. TESEV aims to increase the role of civil society in the democratic process and to combat corruption by organizing seminars and conferences, and publishing reports, books and pamphlets about the current issues. The organization mainly focuses on the three areas of democratization, foreign policy and good governance.



In terms of combating corruption, TESEV has launched a series of policy papers to raise the effectiveness, accountability, and transparency in defense and security establishments. These policy papers are released in order to bridge the gap between academic research and policy decisions. In recent policy papers, TESEV addressed problems such as state reform, transparency, anti-corruption, and accountability. TESEV is working with the World Bank to eliminate corruption, analyze the nature and extent of corruption, and combine the results to submit policy proposals. So far, TESEV has published more than two hundred policy papers to make Turkey a more democratic country and to fight against corruption. At TESEV's official website all of these policy (or position) papers can be found in a downloadable version.

Regarding corruption, an analysis from Ismet Akca (2010) touches on the military economic structure, including analysis of the structure and trends of military spending, problems and solutions, concerning the current situation in Turkey (TESEV, 2014).

### **3. International Transparency**

As a member of NATO and the Organization for Security and Co-operation in Europe (OSCE), Turkey exchanges information on defense spending with both NATO and OSCE members as a requirement of information exchange arrangements.

Under the Vienna Document (1999), it is agreed by all member countries to share in the Annual Exchange of Military Information, which includes information regarding “military forces concerning the military organization, manpower and major weapon and equipment systems” (OSCE, 2014). According to the Vienna Document Article II, members are also required to provide information regarding their defense planning (Vienna Document, 2014).

## **K. CHAPTER SUMMARY**

This chapter presented information on the history of the Turkish defense industry, the Turkish defense procurement process, and the reasons for Turkey's desire to have independent and internally developed defense capabilities. Only after the 1990s have there been some attempts to achieve an independent defense industry. This chapter also

provided information about Turkey's defense acquisition policy and strategies. Organizations and their roles in defense procurement, laws, and regulations providing procurement principles are explained in detail. The factors that give direction to defense planning and budgeting are presented in order to show an understanding of the overall acquisition policy and how they impact transparency.

The Turkish defense procurement uses very complicated financial resources. SSM, the main body of defense acquisition, uses the Defense Industry Support Fund, which provides constant cash flow, to carry out its mission. Since the start of this century, Turkey has been part of an integration process with the EU that affects not only its relations with other countries but also every kind of process, including defense planning, budgeting and procurement. In response to critical reports by the European Counsel, the Turkish Grand National Assembly enacted several laws to provide transparency in military spending. In addition to governmental actions to provide transparency, a non-governmental organization, TESEV, aims to increase the role of civil society in the democratic process and to combat corruption by organizing seminars and conferences, and publishing reports, books, and pamphlets about the current issues.

## **IV. THAILAND'S DEFENSE PROCUREMENT PROCESS AND TRANSPARENCY**

### **A. INTRODUCTION**

This chapter presents an analysis of Thailand's defense procurement process. Throughout Thailand's history, the Thai military has been involved in politics in every era for many reasons, but one of the most important reasons has been for the allocation of funding for military improvement. Military expenditure has risen or declined depending on the situation of military at the time. The defense industrial capability is another factor that indicates the effort of military development. Unfortunately, Thailand lacks advanced technology in the defense industrial capability; purchasing weapons and equipment from friendly countries is a solution that Thailand has been using. To understand the problem of transparency in these various areas of Thailand's defense procurement program, it is essential to understand the organizations, processes, regulations, and decision makers involved. This chapter provides such information.

Chapter research questions underlying the analysis of the procurement process are:

- How influential is the military in Thailand?
- What are the organizations that play an important role in defense procurement?
- Where are the important points in the defense procurement process that can cause loopholes?
- What are the problem areas related to transparency in Thailand's defense procurement process?

### **B. OVERVIEW**

Thailand is located at the center of Indochina in Southeast Asia. It is one of the Association of Southeast Asian Nations, which is the economic organization that has an aim to develop regional economy, culture, and stability. Although Thailand has no clear external threat, internal threats seem to be the main problem obstructing the country from

development. One is the problem from South Thailand insurgency; the other is a political crisis since a coup d'état in 2006 during Thaksin's administration.

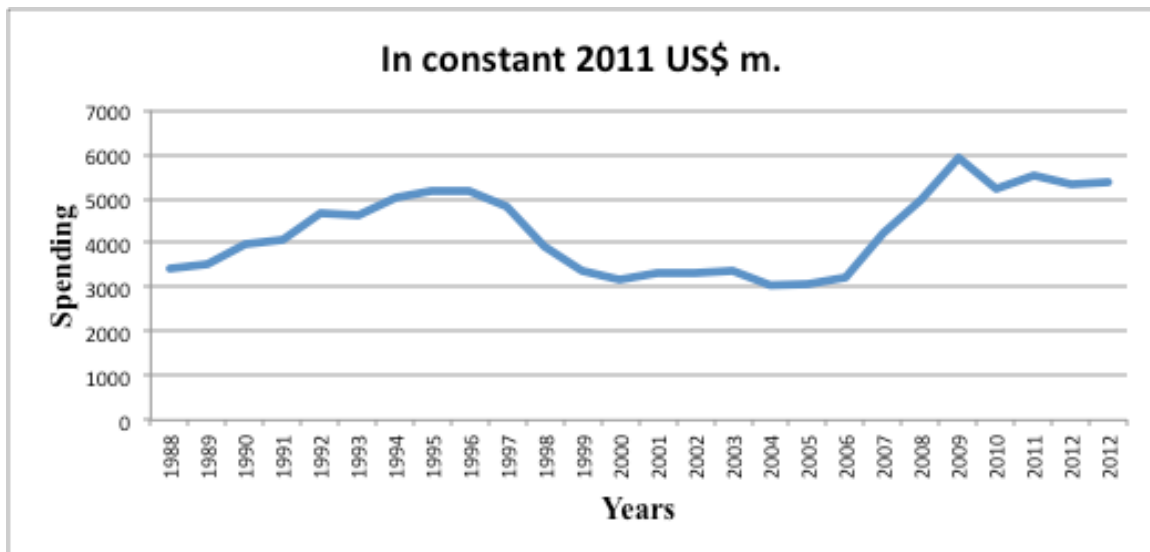
According to these two main problems, the military are focusing and spending most budgets for operations in the Deep South area, while the government manipulates the political power to balance the military. This makes for less improvement in major arms acquisition. Military modernization is also haphazard as the country has few serious research and development projects. Most of major weapons are imported due to the lack of high-technology weapons production caused by inefficient acquisitions. When there are a lot of imports, the tremendous amounts of military spending make corruption more likely.

### **C. HISTORY**

Thai politics were influenced by the military for a long time after the Siamese Revolution in 1932 when Thailand became a constitutional monarchy. However, the rise of the middle class led to economic growth and social transformation resulting in less military domination. After the 1970s, the national threats of communist and armed separatists gradually vanished. In 1992, the National Assembly passed a constitutional amendment to prevent the involvement of active military officers in politics. Furthermore, this amendment ensured that only a Member of Parliament can become Prime Minister. Even though there had been several military coups in Thailand's history, this amendment effectively reduced the power of military leaders who had had a strong role in Thai politics. Since the mid-1990s due to the emergence of Southeast Asia's military during the post-Cold War era, Thailand developed its defense capabilities by modernizing its armed forces. The first defense White Paper written in 1994 made clear that the Thai military was focused on modernization by procuring more modern weaponry. Considering the increase of Thailand's Military Expenditure, as shown in Figure 7, we can see that the military was still the major influence in arms procurement—even though at the time civilians had more power to control the military (Singh, 1998).

In 1997, Thailand was facing a severe financial crisis, which caused a reduction in military expenditure. This financial crisis had impacted military expenditure from that

time until 2006 as shown in the graph in Figure 7. The defense sector experienced the second largest budget cut following the infrastructure sector. This financial constraint pressured the Thai armed forces to cancel many proposed defense modernization programs, such as the military satellite project, two medium-sized submarines, and eight F/A-18 jets. Moreover, the devaluation of the currency caused the postponement of other arms procurements and international training opportunities. The economic crisis also adversely affected the defense budget allocation in the long term. The Thai Armed Forces had to restructure their organization to be more efficient under budget constraints. Consequently, the Thai military was modernized into a compact size with centralized command and control (Navanugraha, 1999).



Source: Stockholm International Peace Research Institute (SIPRI, 2013)

Figure 7. Defense Spending of Thailand 1988–2012 (SIPRI, 2013).

In 2006, there was a military coup led by General Sonthi Boonyaratglin, who was the commander-in-chief of Army at the time, expelling Thaksin Shinawatra from the position of prime minister. After the coup, military expenditure was doubled within a few years, as shown in Figure 7. As the Thai Armed Forces have a major focus on internal security, the majority of expenditure was used for troop deployment to Southern Thailand, which has been confronting an ethnic separatist insurgency. Another major area

of military expenditure is military modernization, which includes training and procurement programs from foreign countries for combat aircraft, airborne early warning systems, and the preparation of the first fleet submarine.

Significant defence investment has allowed the Thai government to embark on a major modernisation programme that will supplement and in certain cases replace its aging Cold War assets and allow it to retain strategic parity with its neighbours. Due to the very limited capacity of the domestic defence industrial base, however, those modernisation plans will remain reliant on foreign suppliers, which Thailand has been seeking to diversify in recent years. (Taylor, 2011)

The increase of military expenditure before 1997 and after 2006 suggests that the Thai Armed Forces are still dependent on politics. The main reason for the expenditure is to recapitalize their aging weapons and equipment. In order to gain sufficient budget and increase expenditure, the military has to be involved in governmental administration in either a direct or indirect way. At the same time, the public is interested in overseeing its military.

Over time there have been some cases of fraud and corruption in defense acquisition, such as the GT200 and the army's surveillance airship. GT200, a plastic case made by Britain's Global Technical, was exposed as a fake bomb detector after many countries purchased to use by their armed forces, Thailand is one of them. Thai Armed Forces had purchased and deployed GT200 to operate in southern Thailand since 2007. Thai government spent more than US\$20 million to buy this equipment without parliamentary consensus, as it was a military project for protecting insurgency. Scientists criticized this equipment as functioning no better than guesswork. The results from incorrect detections in GT200 caused failures in military operations and judgment processes. Many soldiers and police were killed and injured because of the failed detections. Also, hundreds of innocent people were arrested by this unreliable detector causing injustice in the southern provinces (Magnier, 2010). Such incidents have tarnished the image of the acquisition process in terms of transparency.

#### D. DEFENSE INDUSTRIAL CAPABILITIES

Government-run institutions lead the defense industry in Thailand and get support from the private sector. The acquisition focus on foreign military technologies is integrated with domestic programs, most of which are government-run factories and facilities owned by the Ministry of Defense (MOD). The Royal Thai Army runs 21 factories, which is the largest number among the services. In the private sector, there are 20 to 25 companies focusing on Thailand's defense industry and about 20 firms are currently involved in defense industry activities.

According to Table 4, the average spent on Thai defense procurement in 2009 was 18.1% while R&D accounted for only about 2% of total defense spending.

	2009	2010	2011	2012	2013	2014
<b>Procurement</b>	1.186	0.969	0.985	1.034	1.137	1.145
	18.1%	18.4%	18.5%	18.8%	18.9%	19.2%
<b>RDT&amp;E</b>	0.143	0.118	0.123	0.128	0.143	0.144
	2.2%	2.2%	2.3%	2.3%	2.4%	2.4%
<b>Total</b>	6.542	5.276	5.318	5.51	6.03	5.953

Source: IHS Jane's Defense Budgets, 2014

Table 4. Thailand's Defense Spending by Function (USD billion).

The low R&D funding and limits of the local defense industry reflect the effectiveness and motivation of defense development, which relies on a high level of technology imports while exports are insignificant. Unfortunately, the capabilities of Thailand's defense industry are limited due to the lack of advanced technologies. The domestic defense industry can only produce low-tech supplies such as ammunition and small vessels while advanced maintenance needs to be outsourced in some levels (IHS Jane's, 2013).

Therefore, making partnerships in the defense industry sector seems to be a good opportunity for Thailand to improve not only its own capabilities but also its knowhow in defense technology. The policy of collaboration with friendly countries such as Sweden, the United States, Ukraine, and China helps Thailand to obtain advanced technology and

joint development from those countries during defense procurement. The top five countries from which Thailand imports its weapons and equipment are shown in Table 5.

Country	Value (USD billion)	Percentage
Sweden	1200	37%
U.S.	620	19%
Ukraine	515	16%
UK	185	6%
China	200	6%

Source: SIPRI, IHS Jane's, 2014

Table 5. Thailand's Defense Imports during 2000–2010.

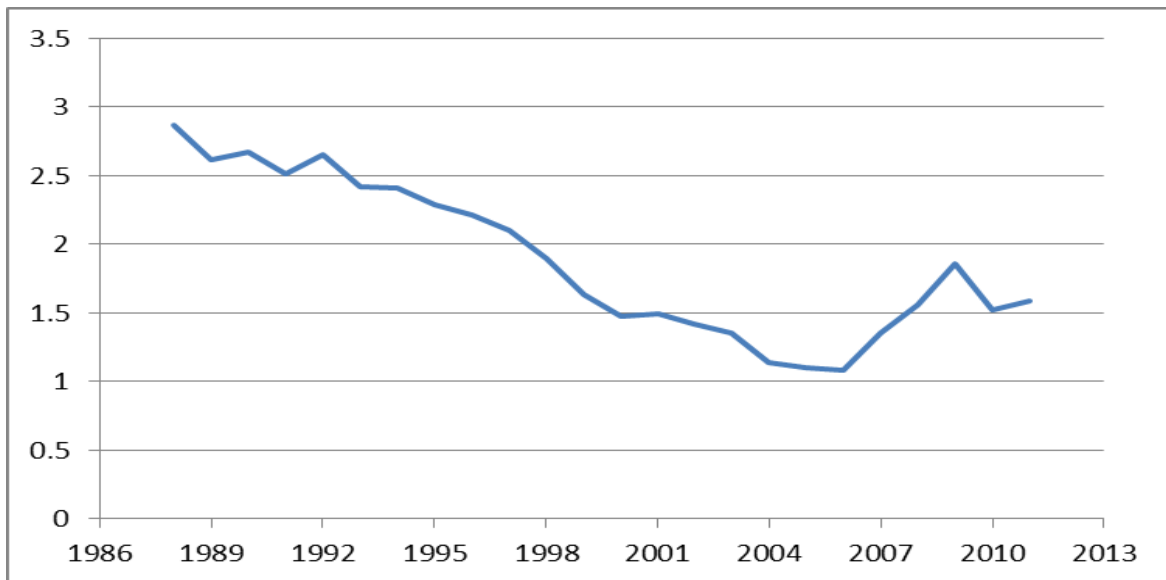


Figure 8. Defense Spending as a Percentage of the GDP 1988–2011 (from SIPRI, 2013).

However, the increasing percentage of defense spending since 2006 and the policy of self-reliant military suggest that the defense industry in Thailand still has a lot of opportunities for investment. Moreover, establishing the Defense Technology Institute to improve defense industrial capabilities suggests that the government realizes the significance of domestic production. Thus, the growth of defense industry trends will rise at a faster rate during the next decade.



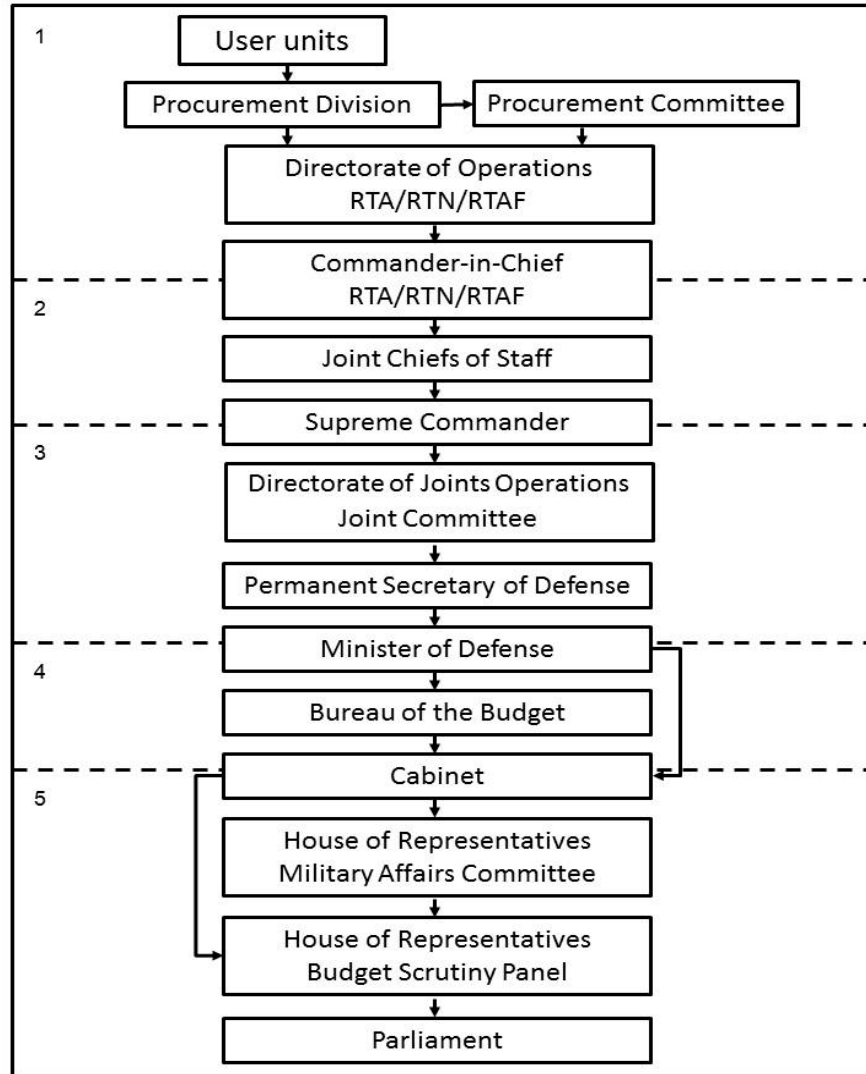
## **E. ORGANIZATIONS IN DEFENSE PROCUREMENT AND THEIR ROLES**

In defense procurement process, there is no central procurement agency, but the National Security Council and the Defense Council play an important role in coordinating security policy and decision-making on general military policy and budget for the government. Furthermore, there are a couple major central agencies that oversee the defense procurement in more stages:

- Comptroller General's Department, established in 1890, monitors, controls, and administers public expenditure in order to ensure all government agencies comply with all rules and regulations related to public finances.
- Office of the Auditor General, established 1932, examines the connection with the collection incomes of the audited agencies, the expenditure, and other properties as well as provides opinions on whether expenditure is in compliance with the regulations.

In the decision-making process, Thailand's defense procurement is divided into the following five levels and has a process involving user units, who are the military personnel, to Parliament according to the flowchart in Figure 8.

- Three Armed services: Royal Thai Army (RTA), Royal Thai Navy (RTN), and Royal Thai Air Force (RTAF)
- Royal Thai Armed Forces Command Headquarters
- Ministry of Defense
- The Prime Minister and Cabinet
- The Parliament



Source: Arms Procurement Decision Making-Thailand (Singh, 1998)

Figure 9. Thailand's Defense Procurement Structure in the Thai Armed Forces.

## F. LAWS AND REGULATIONS

Major laws and regulations that are used in Thai defense procurement are following (Khoman, 2011):

- The Regulation of the Office of the Prime Minister on Procurement B.E. 2535 (1992), as amended number 7 in B.E. 2552 (2009)
- The Regulation of the Office of the Prime Minister on Electronic Procurement B.E. 2549 (2006)
- Act regarding public tendering offenses B.E. 2542 (1999)

- The Regulation of the Audit Committee on Fiscal and Budgetary Discipline B.E. 2544 (2001)

Although there are a lot of regulations involved in defense procurement, the Regulations of the Office of the Prime Minister on Procurement B.E. 2535 is the main regulations to which the armed forces refer. The methods of procurement vary by factors such as the value of the contract, the categories of products and the purchasing urgency. Six methods of tendering are specified according to the size of the contract, while the power of authorization in the special method and special case method has a different threshold limit from others (Khoman, 2011):

- **Negotiation** is for contracts of less than 100,000 baht
- **Price searching** is for contracts of 100,000 baht to 2 million baht
- **Open tendering** is for contracts of more than 2 million baht
- **Open electronic tendering** is for contracts of more than 2 million baht
  - Under 50 million baht: head of department
  - 50 – 100 million baht: Permanent Secretary
  - Over 100 million Baht: Minister
- **Special method** is for uncertain conditions, such as urgency.
  - Under 25 million baht: head of department
  - 25 – 50 million Baht: Permanent Secretary
  - Over 50 million Baht: Minister:
- **Special case method** is for direct contracts to government agencies
  - Head of department is able to approve without limit, with prior approval of the Prime Minister or Cabinet

With regard to competition, these methods can be categorized into two groups:

- **Required competition:** Price searching, open tendering and open electronic tendering
- **Not required competition:** Negotiation, special method, and special case method

In defense procurement, the special method and special case method are used most often as the value of a contract in arms procurement is likely massive and its need urgent, some of which must be approved by Cabinet. In 2009, for example, the Ministry of Defense used both the special method and special case method for 60.23% of its

procurements (Khoman, 2011). Although there is no competition when the special method and special case method are adopted, competitions are occurring within government agencies, the Ministry of Defense and during the procurement process before complying with the regulations in such methods.

## **G. ACQUISITION STRATEGIES**

Recently, the Thai Armed Forces have an acquisition strategy in self-reliance based on R&D in terms of production, maintenance, and modernization. Military procurement also requires enhancing of defense industrial capabilities and knowledge for personnel. However, economic constraint is a major barrier for implementing the strategic plan, resulting in several delayed programs.

### **1. The Defense Industry Strategy**

Since 2007, Thailand has had a strategy to develop local industries through the opportunity of defense business. However, although Thai Armed Forces have a strategy of self-reliance in the defense industry, implementing the strategic plans meets only the minimum requirements, not the optimally effective needs that the policy makers determine. The government focuses on importing arms from partner countries rather than efficiently using state-owned industrial facilities. Therefore, the military makes partnerships in the defense industry sector throughout the defense procurement in order to improve the technical expertise of its defense industrial capabilities. Partner countries such as the United States, China, and Sweden have a commitment to transfer advanced technology and joint development over the purchases as the collaboration policy.

### **2. R&D Strategy**

The Thai Armed Forces have a strategy to increase R&D for military acquisition by cooperating with other government agencies and private sectors. Due to the budget constraint in R&D, services share knowledge with each other to develop their technologies. Insufficient R&D is the main obstruction for long-term development in acquisition. The country also does not have enough personnel with science and

technology skills, so improving manpower is the first priority that Thai armed forces is accelerating. Accordingly, MOD established the Defense Technology Institute (DTI) in 2009 as a defense technology center offering solutions to the armed forces.

### **3. Offset Strategy**

Thailand did not have a defense offset policy until DTI introduced one in 2012, and the offset agreement is likely to be in the defense procurement plan in 2014. MOD will set personnel education as the top priority when the offset is adopted.

## **H. THAILAND'S DEFENSE PROCUREMENT PROCESS**

The Regulations of the Office of the Prime Minister on Procurement B.E. 2535 (1992) provide only general procedures, so government agencies have to release their own practical, specific regulations, and guidance in accordance with laws and regulations. Thai armed forces have their own guidance for the defense procurement process. The process can be divided into six major phases: Program and Budget Request phase, Requirement Specification phase, Source Selection phase, Program Approval and Contract Administration phase, and Contract Management and Inspection phase. These phases are summarized accordingly:

### **1. Program and Budget Request Phase**

User units propose required weapons and equipment by making program and budget plans in compliance with strategic priority, policy, and suitability. Committees must take technology maturity and logistical support alternatives into consideration under the determined budget.

### **2. Requirement Specification Phase**

Staff Target, which is a primitive requirement, is determined when funding is available in a particular fiscal year. The effective requirement is clearly specified by an integrated committee in compliance with the Staff Requirement. Cost estimation is also conducted during this phase.

### **3. Source Selection Phase**

The request for proposal is documented and issued through the public to both the domestic and foreign defense industry. Solicitation allows the Source Selection Committee to receive proposals from qualified offerors. The acceptance proposal will be selected and declared to the public.

### **4. Contract Award Phase**

When the defense procurement programs are approved for purchasing or hiring by a Cabinet's decision, a procurement committee enacts the Special method or Special Case method to conduct the purchase. Due to the existence of competition during the Source Selection phase, which the armed forces use, their own measure within the MOD, Contract Award phase is a process of binding agreement. The finally selected firm is required to create contract activities.

### **5. Procurement Approval and Contract Administration Phase**

The procurement contract will be approved and authorized after the contract is awarded. The post-award activities, including determining responsibility, preparing the award and signing contract, help make the contract lawful and more tangible. Contract administration ensures that the awarded contractor will comply with the conditions in the contract.

### **6. Contract Management and Inspection Acceptance**

Contract management and inspection acceptance teams are formed after the contract is signed. These teams will manage, monitor, and control contractors and sub-contractors for compliance with the details of the contract in terms of cost, performance and schedule, as well as report on the progress of the program to the armed forces.

## **I. TRANSPARENCY IN THAILAND'S DEFENSE PROCUREMENT**

In 2013, Thailand received the lowest rank on Corruption Perceptions Index (CPI) in its history since Transparency International proposed CPI. As shown in Figure 9, Thailand's CPI rank decreased last year from 88 to 102 out of 177, which suggests that

corruption has been a serious problem for decades and has a tendency to become more severe. Some Thai people have a pessimistic attitude that corruption cannot be solved; some even think that they can accept corruption if they get some benefits from it. Therefore, corruption seems to be a problem that has become embedded in Thai culture.

In Thailand, corruption is serious and has improved little in the last 15 years. While corruption is widespread, it is particularly rampant in the business sector which is marked by especially large bribes. Thais are quite pessimistic about efforts to improve governance, and surveys show that they are especially concerned about dishonesty among the judiciary and police. (Lash, 2010)



Figure 10. CPI Ranking Trend of Thailand (from Transparency International, 2013c).

Thailand does not fare any better on other non-governmental organizations' assessments. According to the Government Defense Anti-Corruption Index, Thailand is placed in band D+, which means there are high risks of corruption in defense policy and budget. Transparency International also analyzed the risks as classified by five problem areas.

## **1. Political Risk**

Although the Parliamentary Military Commission inspects the defense policy and budget during the Parliament decision stage, this committee has no right to veto. They have the right merely to recommend further action for Parliament. Besides, it is difficult for the Members of Parliament to investigate the military budget as it is confidential and inaccessible. In the acquisition process, some programs cannot be transparent as stated in their plan because there is no serious anti-corruption strategy conducted by the government. The lack of an anti-corruption plan makes politicians and officials who engage in corruption exempt from any penalty. Therefore, Thailand needs sophisticated measures to cope with such serious problems.

## **2. Finance Risk**

Even though there are explicit regulations and government agencies directing asset disposal, the process of disposal of military assets is not transparent because of the lack of detailed announcements to the public when assets are sold. This activity is subject to corruption if the public cannot scrutinize the funding from asset disposal. Also, there is evidence that a secret budget exists within the military budget. The secret budget is not specified for clear purposes, and it can be used without being inspected by the public. Finally, there are military-owned businesses such as banks and the Thai boxing business that make a lot of money from the military. There is no clear explanation about the use of this amount of money, which is managed by military. Some individual military personnel can take advantage of these businesses hidden behind military secrecy as the public cannot have access to military management. Therefore, there are a lot of hidden financial resources related to the military that the public should monitor.

## **3. Personnel Risk**

Secrecy and lack of available information impede the National Anti-Corruption Commission from getting evidence of corruption even when corruption is found. Personnel recruitment and promotion are also subjective as the promotions board is composed of only military personnel at the top and middle level, and there is no standard assessment process in promotion or appointment. Political influence is usually involved



in top level promotions. Furthermore, only high-ranking officers receive anti-corruption training, but even then there is no regular training plan. So, it is unlikely corruption will be found. Even if fraud was discovered, the punishment for corruption is not stated clearly in the Code of Conduct.

#### **4. Operations Risk**

The doctrines and guidance of the armed forces do not cover corruption. Although there are general inspector departments and internal auditing departments in each of the armed forces intended to enhance transparency, the convictions they have won are not usually announced to the public. There is no monitoring of professionals or guidelines for deployment in the fields that are at high risk for corruption.

#### **5. Procurement Risk**

The procurement program in the military is directed by two main regulations, which are the Ministry of Defense's Regulation on Procurement and the Prime Minister's Regulation on Procurement. These regulations allow using a special method in case of secrecy or urgency. Unlike a normal method, the special method does not need to be announced to the public and the process is much shorter. Besides, the decision and rationale of the committees involved are not necessarily disclosed. Therefore, procurement is a highly risky area for corruption, especially in the unique areas such as offsets or sub-contracts.

It is obvious that several risks are the result of military secrecy, which the public cannot investigate, particularly in defense procurement. Although there are general inspector departments and internal auditing departments in each of the armed forces, they are inadequate for transparency. Therefore, in order to improve the transparency of military procurement, military secrecy needs to be reduced to a level that allows the public and their elected representatives to examine the procurement process for corruption.

Arms acquisitions in Thailand are still confidential and are known only to those who "need to know." As the elected representatives do not belong to that privileged group and have no expertise on security affairs, the

situation is likely to continue. The first Thai White Paper was issued in 1994, followed by a second in 1996. They give some details of military expenditure and define security policy and the role of the Thai armed forces in very broad terms. The level of detail is inadequate if compared with the Japanese and South Korean White Papers and, although it started as a confidence-building exercise, the Thai White Paper does not describe the arms procurement decision-making process. (Singh, 1998)

## **J. CHAPTER SUMMARY**

Throughout Thailand's history, the military's involvement in politics has helped the military to control budget allocation. Today, however, the Thai military seems to have less power than in the past. The public is more interested in monitoring and examining military expenditures, which are funded by taxes on the people in the country. Due to the lack of R&D and the limitations of the defense industry, Thailand has no capability to produce high-technology weapons, so defense procurement is used to solve the problem in the short term. However, inefficient procurement laws, regulations, and processes suggest that there are loopholes for corrupt people to exploit resources. Therefore, the military must be able to explain the rationale of its procurement program and make the procurement process transparent to the public. The transparency problems that currently exist are major barriers to success and an efficient defense procurement program. In order to improve the efficiency of its defense procurement program, the Thai military has to realize what the problem areas are in terms of transparency.

## V. COMPARISON OF TRANSPARENCY IN DEFENSE PROCUREMENT OF TURKEY AND THAILAND

Turkey's rank on the Corruption Perception Index (CPI) has tended to improve since 2004, while the rank of Thailand has greatly decreased for almost ten years. In 2013, the rank of Turkey rises from 54 to 53, but Thailand drops down from 88 to 102 (Figure 11). This indicates that there are some factors driving the level of nations' transparency in different directions. Although CPI shows the overall image of corruption of the countries, defense procurement itself has an impact on people's corruption perception. This chapter analyzes the factors that are different in both countries. These factors include the quality of regulation, competition, power of military, and culture.

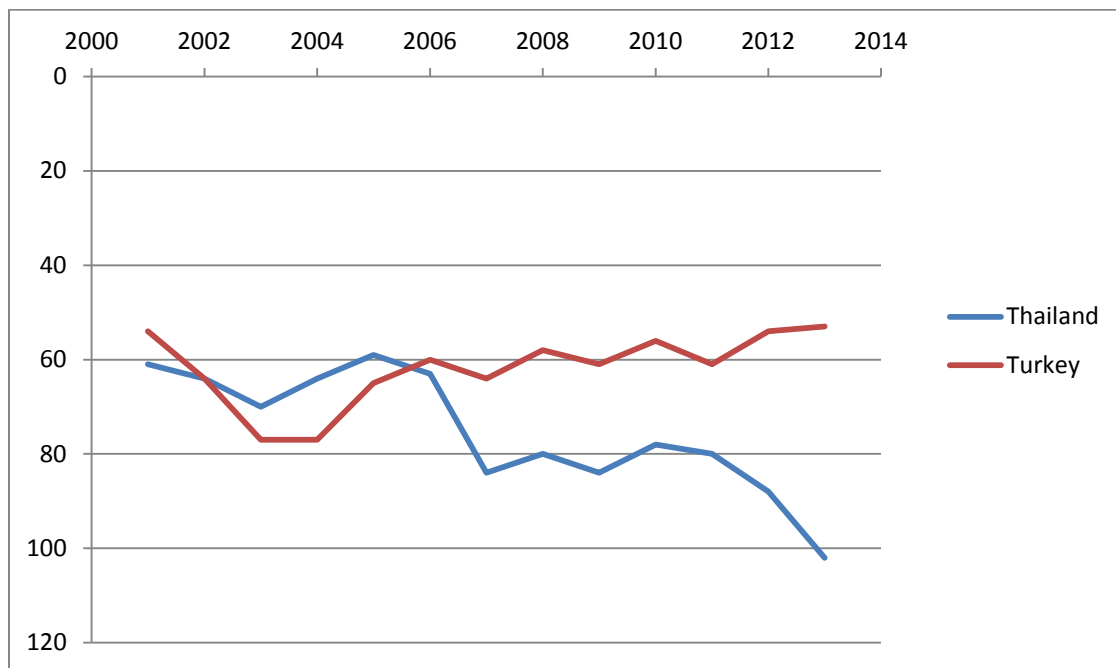


Figure 11. Thailand's and Turkey CPI World Rank (from Transparency International, 2013c)

### A. REGULATORY QUALITY

Regulations are one of the best efforts that have a substantial effect on detecting and preventing corruption. On the other hand, ill-designed regulations may induce

government agents to exploit national resources without breaking any kind of regulations. Also complicated and vague regulations make it impossible to apply these regulations. Therefore, unethical government officials can use regulations in line with their personal interests.

There are several regulations in Turkey for transparency in defense procurement. Until the enactment of Law 3238, only state-dominated firms were satisfying Turkish defense needs. The sole use of governmental sources in meeting defense needs is prone to corruption due to the government agents' ability to hide behind the "governmental shield of secrecy." Enacted in 1985, Law 3238 enabled private firms to take part in producing for the defense needs of Turkey. Thus, private firms started to force the government to open the blinds for both economic competition and transparency. Resolution number 23378 not only expands Law 3238, but also gives details of the civilian integration in satisfying defense needs.

Another law enacted to provide transparency is Law 4734. Law 4734, Public Procurement Law, aims to provide more information about public expenses. Enacted in 2003, the Right to Information Law enabled citizens to access information on public spending and policy. In 2005 with the Law on Public Financial Management and Control, it became a requirement to present more detail on the defense budget to TGNA and to debate longer for the approval of the defense budget.

Since 2010, the European Bank for Reconstruction and Development (EBRD) has been conducting an assessment of the public procurement sector of countries with which EBRD has operations. According to its 2012 assessment report, Turkey placed second in the quality of its procurement laws among the Balkan countries, which can be seen in Figure 12. The 2012 assessment report also showed that Turkey has shown significant progress in regulating the pre-tendering process that is comprised of procurement planning and budgeting (Niewiadomska & Weiner, 2012).

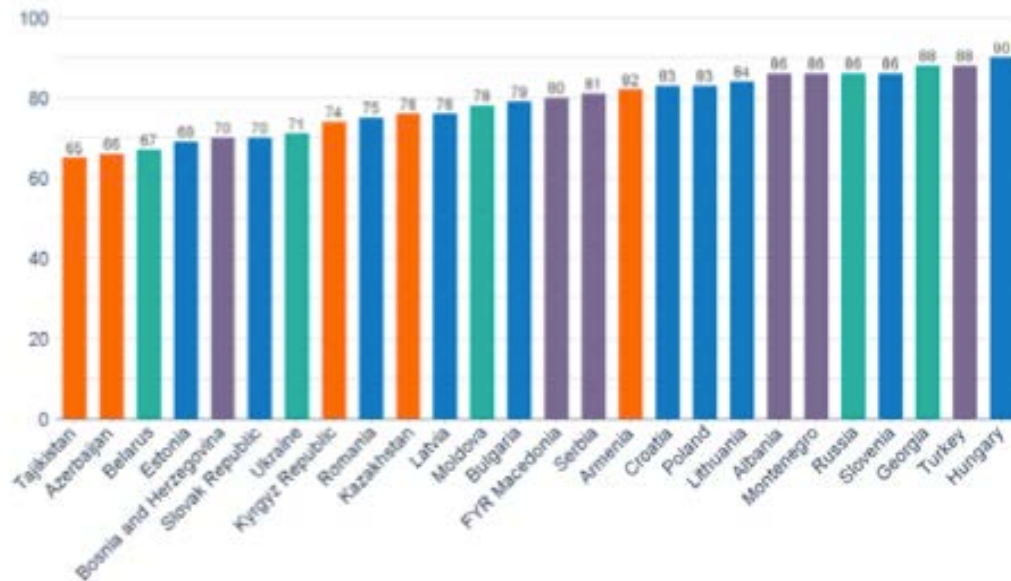


Figure 12. The Quality of Public Procurement Laws in Transition Countries in the EBRD Region (from Niewiadomska & Weiner, 2012).

Another area of progress in Turkey's public procurement is development of e-procurement tools. Turkey is gradually adopting regulations and e-procurement tools to implement solutions for transparency. According to EBRD, Turkey has given importance to usage of e-tools, which are shown in dark red in the chart in Figure 13. Furthermore, Turkey has abandoned the conventional methods of procurement that are shown by light red bars in the chart.

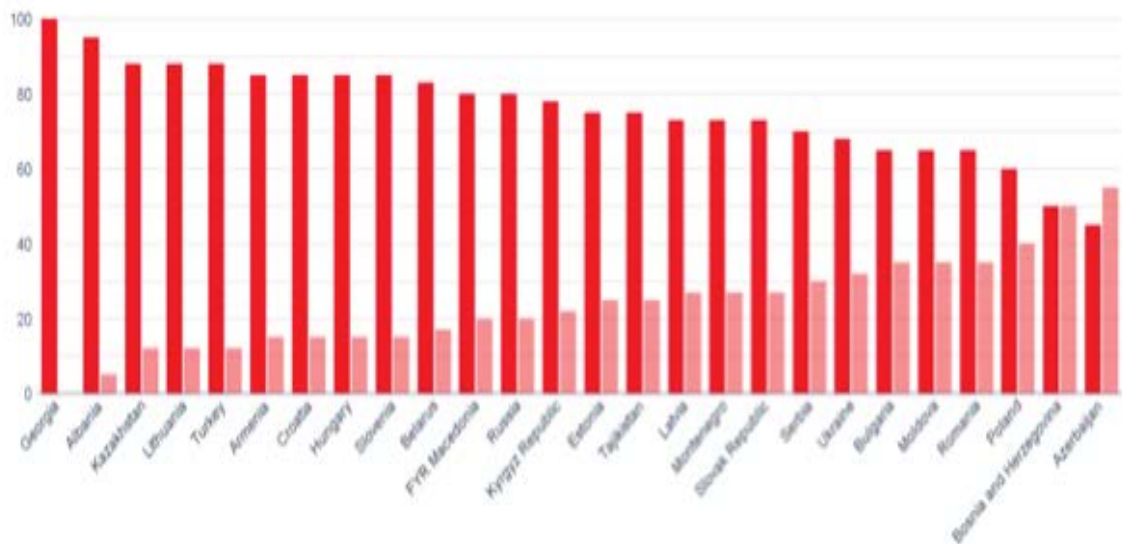


Figure 13. The Implementation of e-Procurement in National Public Procurement Regulatory Framework (from Niewiadomska & Weiner, 2012).

These regulations were helpful in transparency building and address the report of the European Counsel criticizing the lack of transparency in military spending. In addition, Turkey has not experienced a major case of corruption in defense procurement since then.

As for Thailand's regulation in defense procurement, the Regulation of the Office of the Prime Minister on Procurement B.E. 2535 is the primary law for government agencies have to enact when purchasing. Other regulations are used only for supporting the processes. The main regulation is not specific to defense procurement but widely states general criteria for government procurement, so agencies have to apply for specific contracts. In the Ministry of Defense, each armed force has its own regulation, and each is a bit different from the others in compliance with the Ministry of Defense's guidance but still relates to procurement, as well as the main procurement regulation. As there is no central authority, interpreting and implementing the main regulation are practically different efforts, causing different procedures and standards in the procurement process. As a result, the decision-making process requires many detailed documents to make sure

the contracts are standardized and meet the regulation requirements. This bureaucratic stage makes the process cumbersome and less efficient.

Like defense procurement in Turkey, Thailand's procurement regulation strengthens the transparency in procurement by requiring announcements of the many stages to the public, such as qualification criteria and selection method. Minimizing secrecy prevents the procurement process from being manipulated by corrupt officials. However, even though the regulation encourages the armed forces to acquire weapons and equipment that are made within the country, the lack of high-technology armament production capabilities results in the inevitable import of arms from foreign countries. Due to the involvement of the foreign military industry, disclosing some information may affect the national security. Therefore, the Thai military is facing the dilemma of choosing to disclose information to be more transparent or being more secret but with more loopholes for corruption.

## **B. LACK OF ECONOMIC COMPETITION**

Lack of economic competition can be seen as the biggest factor for corruption. When a government promotes competition for a certain project, offerors tend to lower their price to get the contract, resulting in receiving less profit. If there is competition, the possibility of corruption decreases as the offerors get a minimum amount of profit from submitting the best lowest offer. On the other hand, if there is a lack of competition, suppliers tend to submit higher price quotes to increase their amount of profit. This additional profit can be used as a bribe in exchange for a political favor. Immoral government officials can use this opportunity to gain some personal economic benefit.

In Turkey until 1985, it would be wrong to say that there was enough competition to meet Turkish defense needs. Government-owned companies were the only source for military needs, which almost blocked any competition. With the enactment of Law 3238, this "lack of competition situation" came to an end. Also, Resolution number 23378 clearly states that the "defense industry is open to both the foreign and the domestic sector." By eliminating the competition problems, the Turkish defense industry cleared

the question marks in people's minds about the transparency of any defense-related procurement projects.

In Thailand, although there is competition, military secrecy has hampered fair competition among suppliers. In the defense procurement process, the most important competition occurs during the source selection phase taking place before the contract award. Each armed service has its own regulation for source selection, so the suppliers have to deal with different methods chosen by the source selection committee of each service. This causes a barrier for entry to the competition. Besides, unfair competition sometimes occurs when supplier companies have different access to information. Some companies are more advantaged when they can access an inside network, which provides them deeper information for competition. Others may use bribery or kickbacks to gain more hard-to-get information or may even pay for favored treatment from committees.

### **C. CIVIL-MILITARY RELATIONS: THE POWER OF THE MILITARY**

Civil-military relations also play an important role in transparency of military-related activities. Countries in which the military has a significant influence over politics usually lack transparency in all activities that involve the military. In addition, broad public support and trust in the military helps militaries to avoid scrutiny of other governmental and civilian organizations.

Until the last ten years, TAF had an important influence over politics. The main factors, which enabled the Turkish Army with political power, can be summarized as Turkey being a warrior nation, the Kurdish insurgency, and the significant trust and support of the Turkish people. In order to meet EU requirements, TGNA has passed several reforms that aim to strengthen civilian control over the military. In 2003, a seventh reform package came to life with the aim of limiting the role of military. The first impact of this package was the civilianization of National Security Council (MGK). Another impact was that MGK lost the power of unlimited access to all civilian organizations (European Commission, 2003). These regulations reduced the influence of TAF over politics and increased civilian involvement in military activities.



Similarly, in Thailand, due to 12 military coups since the Siamese Revolution in 1932, the Thai military has a bad image in transparency and has gradually lost power. Whenever Thailand has had a military government, the defense expenditures usually increased as the military had power over politics and a lot of military projects were rarely inspected. Without effective scrutiny, much corruption occurred during military government rule. Recently, the power of the Thai military has been reduced because the Thai people are more educated and the public can access more information through media. Due to the GT200 project and current insurgency in the Southern Thailand, the military has lost public trust. Consequently, proposing a new project is difficult when the public has a question about transparency. Also, politicians have to investigate defense procurement more thoroughly during the decision-making process as it is in the public's interest. The public does not hesitate to inspect when they find corruption in the military.

#### **D. STRATEGIC LOCATION AND THREATS**

Militaries symbolize the power of nations and they are effectively used in solving problems. The main responsibilities of armed forces are to protect security and integrity, and to provide deterrence. Armed forces need to be modernized and equipped with advanced systems to fight against any kind of threat. For this reason, the threats that a country faces play a significant role in its procurement process.

Turkey is located at the strategic crossroads of Europe, Asia, the Middle East, and the Caucasus—in other words, at the heart of this century's problematic area. In this problematic area, Turkey faces not only external, but also internal security threats such as the Kurdistan Workers' Party, al-Qaeda, Turkish Hezbollah, and the Great Eastern Islamic Raiders' Front. In order to provide security and protect secularism, TAF must be strong, modernized, and equipped with high-tech systems. Considering the security threats and the needs of TAF, TGNA has tried to meet every request that the military presents without questioning the underlying reasons for the needs. This “satisfy all needs mechanism” has prevented the military from oversight to some extent.

But as a part of integration efforts to EU, reform packages and modernization made the oversight-free situation of Turkish Army a matter of history. Although the

military is still the most trusted institution for overcoming national threats, now all military transactions are subject to audit. In addition, enacted in 2005, the Law on Public Financial Management and Control requires that more information on defense budget be presented to TGNA and that the defense budget be debated for more time before approval.

As for Thailand's situation, it faces no obvious external threat, but internal security is focused on the Southern Thailand insurgency. Without a clear external threat, sometimes it is difficult to explain to the public the importance of developing the armed forces. When the military requests the defense procurement, there usually are inquiries from the public questioning whether it is necessary. Besides, the existing problem of the Southern Thailand insurgency makes Thai people suspicious of the efficiency and transparency of budget used in the area. The lack of trust from the public seems to be a barrier for defense procurement.

However, Thailand is a member of Association of South East Asian Nations (ASEN), which consists of ten countries in South East Asia and is transitioning to the ASEN Economic Community in 2015. The region is being transformed into a single market and production base. Therefore, Thailand has to be involved in regional security, especially marine security, which is important for the regional economy. This combination of countries gives South East Asia more advantages in terms of defense industrial capabilities. The defense market will be more attractive for investors, resulting in the development of a robust defense industry. This will create an opportunity for Thailand to improve its transparency in defense procurement.

## **E. CULTURE**

As stated in the second chapter, culture (i.e., the level of generalized trust, importance of religion, and acceptance of hierarchy) is another player that affects the perception of transparency. Countries that are characterized as having a high level of hierarchy and low level of general trust are generally more prone to corruption than other countries. Also, a nation's description of transparency and corruption is important to evaluate the effectiveness of anti-corruption measures. A particular action can be

accepted as a wrongdoing in one country, but in another country it is not. It is the culture that makes the difference in the perception of corruption.

First of all, Turkey has long been known as a military nation, and every Turk is born a soldier. Furthermore, there is broad public support for TAF. This broad public support and trust stems not only from TAF's great successes throughout history, but also from TAF's standing as an intact and clean institution. There is no case of corruption known in the history of TAF. In Turkish culture, a young man going into military service is considered as becoming a "real man." Successfully finishing military service means becoming an honorable person. In order to uphold this image of a "clean and sacred institution," every military member is very sensitive to even his smallest actions. According to military codes, not only are bribes or any kind of corruption unacceptable, but also small faults that blemish the integrity of TAF are considered as wrongdoing and warrant punishment. Considering all these factors, there has been no request from the public about disclosure of defense procurement activities.

In contrast, the military in Thailand is different when there is a military coup about every seven years on average. In Thai history, the military has tried to involve itself in politics by using non-democratic methods. Although the Thai people still respect the military as defenders of the nation, they realize that there has been corruption inside the armed forces. Even so, for a long time no one wanted to be involved in demanding scrutiny of defense procurement for fear of military retaliation. Recently, the military is less dominant in the society. People are more alert and suspicious when the armed forces propose a new procurement project. Many fraud cases were found when the public began questioning, such as the case of the GT200, which was started by suspicion from a public web board. However, from an optimistic point of view, the public is now playing a greater role in scrutiny and preventing corruption in the society. Obviously, the image of the military in terms of transparency is poor. Better transparency in defense procurement in Thailand, therefore, seems to be in the forefront of public interest.

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## **VI. CONCLUSION AND RECOMMENDATIONS**

This final chapter summarizes the problem areas in the defense procurement process and provides recommendations to make defense procurement more transparent and corruption free.

### **A. SUMMARY**

Many characteristics learned from the fraud case discussed in this study suggest problem areas that can cause corruption. As defense procurement has a massive size and there are vulnerable stages in the process, it is attractive to corrupt officials and contractors who take advantage of loopholes. Inefficient laws and regulations cannot prevent such fraud. Lack of economic competition also leads to unfair practices and favoritism in exchange for dishonest benefits. Conflict of interest is one kind of corruption that can often be found in defense procurement. Due to the important role of the Ministry of Defense in national politics, political authorities always invoke the need for secrecy to protect national security, which makes defense procurement fraud one of the most difficult areas to investigate.

Militaries are inevitably involved in politics to influence their defense budget and maintain their power position. Shielded behind secrecy, immoral military personnel may exploit national resources or military business because there is no efficient law and regulation against corruption. A lack of trained professionals actively tasked with preventing corruption is still a problem. However, efficient anti-corruption strategic plans and guidelines provide hope for defense procurement to become more transparent. The public interest can be an effective tool to prevent corruption when the public insists the military provide sufficient rationales before purchasing.

There are two main questions that summarize this study, and they are reviewed in the following paragraphs.

**1. What are the Main Problem Areas in the Defense Procurement Process?**

Both defense procurement and public procurement have some common vulnerabilities, some of which are the lack of control and oversight, single sourcing, favored bidders, and political impact. However, due to the importance of defense for nations and the huge amounts of money transactions in defense acquisition, the defense procurement process has some extra corruption problem areas, including secrecy and other security measures that tend to limit the transparency of defense procurement.

**2. How Effective are the Existing Anti-Corruption Tools to Fight against Corruption in Defense Procurement?**

Although there are many anti-corruption tools aiming to provide transparency, their effectiveness is highly questionable. In fact, some of the anti-corruption tools can only begin to address the corruption problems, but cannot effectively solve them.

The laws, regulations, and other conventions enacted to fight against corruption mainly address certain wrongdoings such as conflict of interest, bribery, and issues of competition. Nevertheless, they fail to address procurement actions, such as unnecessary and unfair requirements that are totally in accordance with laws but cause the needless expenditure of millions of dollars.

As explained in previous chapters, TI assessment is based on the nations' willingness to assess their corruption risks and transparency levels. In other words, the assessment is a voluntary tool that mainly consists of questionnaires. It detects problems in defense procurement; however, it does not contain any legally binding methods to fix the detected problems.

**B. CONCLUSION**

The defense sector always poses corruption risks due to the secrecy and huge amount of money outlaid on contracts. According to Transparency International, at least US\$20 billion is wasted in the defense and security sectors because of the corrupt actions. National security concerns are used as a veil to hide the actual amount of money lost through corruption.

Corruption not only destroys trust in national security institutions, but also risks the lives of military personnel in the field. Arms bought in return for bribes sometimes do not work properly when needed in the field by soldiers, leaving them vulnerable to threats.

Recently, there has been a rising trend for transparency in Turkey. Starting from the early 2000s, Turkey has been driving for transparency in defense policy, defense planning, and defense budgeting. In particular, reform packages that have been passed to meet the Copenhagen criteria mandated by the EU have reduced the influence of TAF on politics and increased transparency in TAF activities. However, the CPI ranking of Turkey does not show a vertical trend, which shows that there needs to be some other efforts for a more transparent Turkey. Although the defense sector requires some degree of secrecy, activities in the defense sector such as defense policy, defense budgeting, and procurement must be open to the public in order to reduce the possibility of corruption.

Governments are not the only responsible figures in transparency building. Armed forces, the defense industry, and civil society must also take part in the fight against corruption. Considering the risk areas in defense procurement system of Turkey, there should be some actions and different measures to detect and prevent corruption. The range of the measures should vary from the institution of a single procurement agent to the politicians.

On the other hand, the CPI ranking of Thailand shows a declining trend, which represents that there still remain some serious corruption risks in the defense procurement process of Thailand. In order to eliminate corruption and enhance transparency in the defense procurement process, the military has to realize the existing problem areas. As there have been many military coups, the military has been too much involved in politics. Political instability makes the implementation of a transparency policy difficult. The government cannot adopt serious anti-corruption plans or enact laws for enforcement effectively under such conditions. Moreover, secrecy in the military prevents inspection by the public and auditing agencies. It is easy for corrupt personnel to hide their own benefit behind secrecy. This can foster corruption when the public cannot access information that is not necessarily secret, especially in competitive processes. Vendors

cannot access the same amount of information, resulting in gaps between competitors and in opportunities for bribery. Finally, the defense procurement process is currently based on bureaucracy rather than knowledge base due to the lack of R&D and offset strategies. This can cause transparency problems in the long term, when the military does not use scientific or justifiable rationales in their decision-making processes. However, it is a good sign that the public is more interested in the transparency of defense procurement. People in society are alert and monitoring the military. The military has to sincerely modernize its practices from policy to implementation.

There are some factors that make the difference in both understanding and applying transparency in the defense procurement of Turkey and Thailand. These factors, which are quality of regulation, competition, power of the military, strategic location, and the culture, can affect procurement processes in a negative or corrupt fashion.

## **C. RECOMMENDATIONS FOR TURKEY**

### **1. Governmental Actions**

There should be a mechanism to analyze the corruption risk in defense and security institutions. This mechanism must also be responsible for developing a common understanding of integrity and corruption, and for coming up with remedies for wrongdoings.

Some portion of the budgets of MOD and TAF is restricted from public access, and secrecy prevails on money-related activities. For this reason anti-secrecy should be seen as a main principle in defense procurement. In the case of significant issues, secrecy should be used as an exception. Defense budgets of governments should be published annually and defense budgets should be subject to oversight.

An easily accessible code of conduct and proper anti-corruption training should be furnished to the procurement agents.

All organizations that take part in the defense procurement process of Turkey should ensure that procurement decisions are based on strategic needs and are publicly



accessible. SSM should require bidding companies to ensure that subcontractors have anti-corruption mechanisms.

Currently, Turkey lacks private military contractors. Therefore, Turkey should increase the number of private military contractors used in the defense procurement process to increase the benefits of contracting and to reduce any probability of wrongdoings.

Whistleblowing is also a helpful hand in providing transparency. However, Turkey lacks any kind of a whistleblowing mechanism. Both civilian and governmental whistleblowing organizations should be established to provide feedback from the point-of-view of an outsider.

## **2. Legislative Actions**

Turkey should continue on reforms that enable defense and security institutions accountability and openness. There should be monitoring and overseeing mechanisms to control the actions of defense and security institutions.

Most of the corruption cases, as we have shown, stem from limited public access to the procurement process and defense budgeting. In order to provide transparency for everything except highly important and secret projects, TGNA should pass laws enabling the public to access all procurement processes.

## **3. Civil Society Actions**

Civil organizations can increase the role of civil society in the democratic process and can show ways to fight against corruption. Seminars, books, and published reports about corruption and transparency help society to drive for “clean” governments. TESEV should continue to organize seminars and publish policy papers, especially those focused on defense spending, to increase accountability and integrity.

## **4. Executive Actions**

Secrecy is the biggest shield for corruption. Secrecy should not be used unless it is necessary for national security. Therefore, executives should provide recommendations

to legislators about the definition of classified actions and the situations in which to use secrecy.

Auditing the defense expenditure is a good way to detect and prevent corruption. Although TGNA has passed several laws enabling civil auditors to audit military spending, there should be no exception that prevents auditors from evaluating the transactions of TAF.

## **5. Audit Actions**

Auditors should take part in SSM and TGNA meetings to recommend necessary legislative actions, without which, opportunities exist for conducting corrupt actions.

## **6. Leadership Actions**

Small-scale corruption activities can sometimes remain unnoticed. For this reason, small-scale corruption is more dangerous than large-scale corruption. It is the job of executives and procurement agents to detect, report, and take necessary actions in cases of this kind of corruption.

Leaders should take more responsibility and active roles in the procurement process by conducting reviews and providing recommendations for procurement agents. Leaders should monitor the procurement personnel to prevent any of them from amassing too much power. People who have too much power are more prone to commit corrupt acts.

Leaders should establish a 360-degree personnel appraisal to get some feedback, not only from superiors, but from peers and subordinates as well. The 360-degree appraisals will provide more thorough information to help prevent or detect any ethical problems in the organization. Periodic self-assessment mechanisms of the organization and practices should be established to keep up with the requirements of a rapidly changing world.

Leaders should ensure the flow of information in their organizations. Information sharing and communication should be some of the main features of the office environment in order to prevent “behind-door deals.”

Source selection decisions and other information related with the contract should be transferred to bidders by web pages, bulletins, or other kinds of media to provide effective monitoring and feedback.

As George Bernard Shaw said: “Success does not consist in never making mistakes, but in never making the same one a second time.” Previous case studies related to the procurement area should be analyzed in detail to learn from, and to apply learned lessons to our procurement organizations.

## **D. RECOMMENDATIONS FOR THAILAND**

### **1. Governmental Actions**

Anti-secrecy should be seen as a main principle in defense procurement. In the case of significant issues, secrecy should be used as an exception. Defense budgets of governments should be published annually and defense budgets should be subject to oversight.

Governments should ensure that procurement decisions are based on strategic needs and are publicly accessible

MOD should establish a central defense procurement agency so that all services will have the same standard and more bargaining power.

Proper anti-corruption training should be furnished to the procurement agents.

The military should be less involved in politics. The government should realize the importance of the military and provide sufficient budget to the military to ensure national security.

## **2. Legislative Actions**

In order to provide transparency for everything except highly important and secret projects, laws enabling the public to access all information related to the procurement process should be enacted.

The main regulations should allow competition in every method and standardize the competition to be the same in every service.

## **3. Civil Society Actions**

Civil organizations should take a more proactive role in increasing democracy and providing transparency in governmental institutions. Civil organizations should lobby the government of Thailand to announce spending levels for defense and other security institutions.

## **4. Executive Actions**

Executives should provide a good example and clear policy in transparency as well as seriously implementing an effective anti-corruption plan without favoritism.

Since secrecy is the protective shield for corrupt government agents, executives should take every possible action to fight against secrecy.

## **5. Audit Actions**

An auditing agency should proactively investigate the defense procurement processes, not only in the final decision stage but also in each procurement stage throughout the process. However, bureaucratic auditing the process should not interrupt the effectiveness of the necessary defense procurement process.

## **6. Leadership Actions**

Leaders should take more responsibility and active roles in the procurement process by conducting reviews and providing recommendations for procurement agents. Leaders should monitor the procurement personnel to prevent any of them from amassing

too much power. People who have too much power are more prone to committing corrupt acts.

Personnel background must be checked to see whether they might have any history of corruption or lawlessness. Indeed, it does not ensure that people with clean backgrounds will stay clean throughout their careers; however, checks reduce the possibility of wrongdoing.

Source selection decisions pose a great risk for defense public procurement. Therefore, source selection decisions should be provided by all procurement team members to select the most beneficial contract and to prevent any conflicts of personal interest.

Defense procurement should be based on R&D so that there is enough professional knowledge and science background for making a decision in each stage.

#### **E. AREAS OF FURTHER RESEARCH**

Transparency International and other previously mentioned non-governmental organizations aim to fight very broad topics of corruption, varying from forestry to education. Although corruption in defense and security actions is stated as one of the topics of study, findings of the study do not address the specific defense procurement problems of the countries being studied. Furthermore, studies on defense procurement do not provide solid evidence of corruption. The studies are mainly comprised of questionnaires and the perceptions of people selected about transparency and corruption. For certain reasons, such as secrecy and international security, countries are not willing to share information on their activities related to defense and security procurement. This is a huge obstacle that blocks detailed investigations on the effectiveness of anti-corruption measures.

A detailed and specific investigation into defense procurement is needed to understand the actual causes of corruption and to find effective solutions for providing transparency. Using published documents about awarded defense contracts, defense

spending, and defense budget-planning processes, instead of depending on questionnaires in the investigation, can provide more solid evidence of corruption.

Additionally, pros and cons of single source contracts, offset arrangements, and e-procurement should be specifically analyzed to acquire more effective means to fight against corruption.

Finally, although there are comprehensive analyses of effectiveness of anti-corruption measures used in sectors such as health and education, the defense procurement sector lacks this kind of analysis. An evaluation of the effectiveness of anti-corruption tools can help to change current ineffective tools and replace them with more useful ones.

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